

Response to IFRS Foundation Exposure Draft on Proposed Targeted Amendments to the
IFRS Foundation Constitution

July 29, 2021

Japan Exchange Group, Inc.
Tokyo Stock Exchange, Inc.

Dear IFRS Foundation Trustee Members,

Japan Exchange Group and Tokyo Stock Exchange welcome this opportunity to comment on the Exposure Draft on Proposed Targeted Amendments to the IFRS Foundation Constitution to Accommodate an International Sustainability Accounting Standards Board to Set IFRS Sustainability Standards (hereinafter referred to as the "proposed amendments to the Constitution").

In Japan over the past few years, the importance of taking positive and proactive action on sustainability-related issues to improve mid- to long-term corporate value has grown, not just from the perspective of risk but also for revenue-making opportunities. Listed companies have also been enhancing their reporting of sustainability information to investors.

With this background, in June 2021 we revised Japan's Corporate Governance Code, adding new provisions on sustainability-related initiatives and disclosure. On disclosure of climate-related information in particular, the revised Code promotes enhanced disclosure based on internationally recognized frameworks for Prime Market-listed companies¹, stating that these companies should "enhance the quality and quantity of disclosure based on the TCFD recommendations, which are an internationally well-established disclosure framework, or an equivalent framework." From the perspective of comparability of corporate disclosure, we have strong expectations that the unified framework created by the IFRS Foundation's International Sustainability Standards Board (ISSB) will be one that can be considered "equivalent to TCFD" in terms of governance, processes, contents and other aspects.

As a capital markets operator, we will continue to support listed companies' sustainability reporting and promote dialogue between them and investors.

Regarding the proposed amendments to the Constitution, we appreciate that there has been consideration of the comment letter we submitted to last year's IFRS Foundation Consultation Paper on Sustainability Reporting, and we strongly value the focus on investors and other capital

¹ The Prime Market is a stock market segment aimed at a wide range of institutional investors both in Japan and abroad, which will be newly established on Tokyo Stock Exchange in April 2022.

market participants as the main recipients of sustainability reporting. Overall, we agree with and support the outline of the IFRS Foundation's proposed amendments to the Constitution.

However, we also feel that further consideration needs to be given to the following points, which we see as important.

Ensuring the transparency and fairness of the ISSB (Question 1)

We consider that ISSB members should include not only those working within the sustainability field, but also the main capital markets participants such as financial statement preparers and investors. It is also important to ensure diversity from geographical and industry perspectives. On this point, as the number of "at-large" members has increased compared to the International Accounting Standards Board (IASB), we are concerned that these appointments may lean too much towards particular regions and we therefore feel that it would be better to have a geographically balanced membership like the IASB. We also consider it important for ensuring credibility in the ISSB that member selection is transparent and appropriate.

In addition, it is important that a level of transparency and fairness equivalent to the IASB is also ensured for the ISSB standard setting process. We would prefer for the ISSB's voting requirements for approval to be equivalent to those of the IASB, instead of a simple majority.

Areas the ISSB should cover (Question 4)

Regarding the areas of sustainability reporting that the ISSB should cover, we see climate change as the most important, urgent issue on a global level. In addition to that, though, we think that it would be suitable for the ISSB to consider other issues that could be considered important to investors, for example social issues such as respect for human rights, employee health and working conditions, and fair trade.

We are members of the IFRS Council of Japan and we agree with the content of the comment letter submitted by the IFRS Council of Japan to the IFRS Foundation². Please refer to that letter for our opinions on points other than the above.

Sincerely yours,

²http://eifrs.ifrs.org/eifrs/comment_letters/590/590_28517_IFRSCouncilofJapanIFRSCouncilofJapanIFRSCouncilofJapan_0_CommentletteronIFRSFoundationConstitutions_theIFRSCouncilofJapan.pdf