

Opinions on the ISSB's "Consultation on Agenda Priorities"

August 31, 2023

Study Group of Effective Disclosure and Governance on IP Investment and Utilization Strategies

<Introduction>

1. We are a group called, the "Study Group of Effective Disclosure and Governance on IP Investment and Utilization Strategies" (hereinafter referred to as "Study Group" or "we"). It was inaugurated by the Japanese Cabinet Office in August 2021 and it consists of Japanese investors, business executives and others. The Study Group established the "IP & Intangible Assets Governance Guidelines" (hereinafter referred to as "Our Guidelines") mainly for business executives, investors, and financial institutions (established in 2022; revised in 2023; the Study Group has met 21 times in total).
2. The Study Group respects the activities of the IFRS Foundation and the ISSB that bring transparency, accountability, and efficiency to the global financial market. The Study Group also appreciates the opportunity given to us to submit our opinions to this Consultation on Agenda Priorities (hereinafter referred to as "Agenda Consultation").
3. Responses to sustainability-related issues are becoming an underlying basis of business strategy in view of long-term and sustainable value creation. In order to resolve sustainability-related issues, companies are required to create innovations and provide new products and services as solutions for customers. For this reason, the investment and utilization of companies' intellectual properties and intangible assets (hereinafter referred to as "IP/Intangible Assets") are essential. Our Guidelines facilitate information disclosure contributing to the decision making of investors on investments in order to encourage long-term investments that support innovation.
4. In addition, Our Guidelines describe constructive communication between companies and investors in an easy-to-understand manner. Specifically, they explain how companies should carry out the disclosure of their investment and utilization strategies for IP/Intangible Assets and the building of good governance. Through these activities, companies will be able to generate cashflow and lead the cashflow to corporate value creation in the short, middle and long term, and will be appropriately recognized by investors. This point may be a concrete example of the initiatives implemented around the world to facilitate corporate management focusing on sustainability. Therefore, we consider that it can contribute to enhancing the global baseline for sustainability-related financial disclosure that is focused on investors, which is the aim of the ISSB.
5. We consider that a discussion of integration in reporting is essential for associating disclosure with corporate value and shows an important way of thinking about the evaluation of corporate value. Integration in reporting requires companies to include

where, what, and how information on value creation can be "connected" through conceptual and operational linkages. Our Guidelines present the following ideas as a communication framework: "story backcast from the business portfolio transformation," "intended causal path," and "linkage with management indicators, such as ROIC, etc." We consider that these ideas contribute to promptly facilitating the integration in reporting project.

6. For this reason, we would like the ISSB to introduce the concept of the communication framework to the framework of integration in reporting. If companies make disclosures in accordance with the framework, it will facilitate investors' understanding so that companies can participate in constructive engagement with investors.
7. The term as used in Our Guidelines, "IP/Intangible Assets" refers to "intangible assets, including intellectual properties". Its scope is not limited to intellectual property rights such as patent rights, trademark rights, design rights, copyrights, but also includes a wide scope of intellectual properties and intellectual assets, including technologies, brands, designs, content, software, data, know-how, customer networking, trust and reputation, value chains, supply chains, and the organizational capabilities and processes to produce them. It covers the "intellectual capital", "social and relationship capital", and other categories from among the capital categories of the Integrated Reporting Framework.

Question 1 - Strategic direction and balance of the ISSB's activities

(a) From highest to lowest priority, how would you rank the following activities?

- (i) beginning new research and standard-setting projects
- (ii) supporting the implementation of ISSB Standards IFRS S1 and IFRS S2
- (iii) researching targeted enhancements to the ISSB Standards
- (iv) enhancing the Sustainability Accounting Standards Board (SASB) Standards

8. We consider that the priority of integration in reporting under (i) beginning new research and standard-setting projects, and (ii) supporting the implementation of ISSB Standards IFRS S1 and IFRS S2 is relatively high. We position the priority of the both as being the same.
9. Following these two items, we consider that the part of the research projects on human capital, which is related to the creation and utilization of IP/Intangible Assets, is important. The reasons are described in detail in the answer to the Question 1(b).

(b) Please explain the reasons for your ranking order and specify the types of work the ISSB should prioritize within each activity

(Reasons for prioritizing integration in reporting among "beginning new research and standard-setting projects")

10. It is because implementing the integration in reporting project enables investors to easily understand the connection between financial performance and sustainability

performance so that investors can evaluate corporate value appropriately.

(Reasons for prioritizing supporting the implementation of ISSB Standards (IFRS S1 and IFRS S2))

11. When companies start to introduce the IFRS S1 and the IFRS S2, practical issues will be revealed. For example, Scope 3 emissions have issues, such as the fact that the possibility of obtaining necessary data is low, and there is variability in the method of calculating emissions between companies, etc. When establishing a standard related to a new project in the future, we consider that practical knowledge in implementing the IFRS S1 and the IFRS S2 can be used. Therefore, we consider that support for the implementation of the IFRS S1 and the IFRS S2 should be prioritized.
12. In addition, concerning "connected information" in the IFRS S1, it is required to give explanations of the relationship with the sustainability-related financial disclosures and other general purpose financial reports. We consider that IP/Intangible Assets are important information from the perspective of evaluating the risks and opportunities of sustainability-related topics and of connecting with financial information. IP/Intangible Assets should be used for giving explanations of how these topics are connected to financial information.
13. In order to resolve issues related to sustainability-related topics, including climate change, companies must create innovation. Since the social implementation of innovation takes time, the disclosure of IP/Intangible Assets, such as the results of R&D investment, makes it possible to visualize specific timelines and progress until the outcome is achieved. Therefore, we consider that the disclosure is helpful for investors.
14. The ISSB indicates the development or strengthening of guidance and materials when implementing the IFRS S1 and the IFRS S2. The appropriate disclosure of information on relevant IP/Intangible Assets at the time of development or strengthening should be encouraged.

(Reasons for considering that the human capital project is important)

15. It is because, in addition to IP/Intangible Assets, human capital related to the creation and use of IP/Intangible Assets is also important from the perspective of value creation when explaining the relationship between the disclosure of sustainability-related information and corporate value. In concrete terms, value creation through the social implementation of innovation is necessary to resolve sustainability-related issues, and investment in and utilization of IP/Intangible Assets is necessary for the creation of innovations. For this reason, human resources that can create and utilize IP/Intangible Assets are important. The ISSB also recognizes this point. For example, the "workforce's motivations to innovate" is indicated in the definition of human capital in A15 of the Agenda Consultation. It is also clear that the "ability to innovate" is listed as an example of company abilities in A16 of the Agenda Consultation. Organizational capabilities that can create human resources sustainably and continually are also important. If you choose a human capital project, it is important to disclose information related to the creation of corporate value, such as the

disclosure of information related to human resources that can create innovation, etc.

(c) Should any other activities be included within the scope of the ISSB's work? If so, please describe these activities and explain why they are necessary.

There is no comment.

Question 2 - Criteria for assessing sustainability reporting matters that could be added to the ISSB's work plan

(a) Do you think the ISSB has identified the appropriate criteria?

16. We consider the criteria proposed by the ISSB to be appropriate. We then consider emphasizing (i) "the importance of the matter to investors" from among the criteria. This is partly because the objective of the IFRS Sustainability Disclosure Standards is to require the disclosure of useful information for primary users of general purpose financial reports to make decisions and partly because we consider that the perspective of investors as primary users is the most important.

(b) Should the ISSB consider any other criteria? If so what criteria and why?

There is no comment.

Question 3 - New research and standard-setting projects that could be added to the ISSB's work plan

(a) Taking into account the ISSB's limited capacity for new projects in its new two-year work plan, should the ISSB prioritize a single project in a concentrated effort to make significant progress on that, or should the ISSB work on more than one project and make more incremental progress on each of them?

(i) If a single project, which one should be prioritized? You may select from the four proposed projects in Appendix A or suggest another project.

(ii) If more than one project, which projects should be prioritized and what is the relative level of priority from highest to lowest priority? You may select from the four proposed projects in Appendix A or suggest another project (or projects).

17. We believe that integration in reporting among the four presented projects should be preferentially implemented as a single project because, as in the response to Question 7, we consider this issue to be the most important from the perspective of providing useful information for investors to make decisions.

Questions 4 – 6

There is no comment.

Question 7—New research and standard-setting projects that could be added to the ISSB's work plan: Integration in reporting

(a) The integration in reporting project could be intensive on the ISSB's resources. While this means it could hinder the pace at which the topical development standards are developed, it could also help realize the full value of the IFRS Foundation's suite

of materials. How would you prioritize advancing the integration in reporting project in relation to the three sustainability-related topics (proposed projects on biodiversity, ecosystems and ecosystem services; human capital; and human rights) as part of the ISSB's new two-year work plan?

18. We consider that the integration in reporting project should be implemented preferentially. There are two reasons for this, as stated below.

(Reason 1: In order for investors to evaluate the overall corporate value appropriately)

19. We consider the discussion of integration in reporting to be essential for associating the disclosure with corporate value. We also consider it necessary for investors to evaluate corporate value. We also agree with the idea indicated in A41 of the Agenda Consultation, "Integration in reporting can ensure that connections between financial and sustainability performance are explicitly, efficiently and effectively communicated in a manner that is more easily understood by an entity's investors."

20. A40 of Agenda Consultation states that "Integration in reporting not only encompasses where, what and how information on value creation can be connected through conceptual and operational linkages" and "but also includes the collective consideration of the interdependencies, synergies and trade-offs between" various resources and relationships, etc. We also agree with this idea.

21. Under conditions where information on individual sustainability-related topics is disclosed separately, it is considered to be difficult for investors who are users of the disclosed information to determine the impact on overall corporate value. Therefore, in order to make investor's corporate evaluations more effective, integration in reporting should be preferentially examined over the disclosure of information on individual sustainability-related topics.

(Specific example of integration in reporting of a Japanese company)

22. The idea of a communication framework as indicated in Our Guidelines conforms to the idea described in A40 of the Agenda Consultation. There are many examples of good practice in disclosure of Japanese companies and we find that they are highly recognized by investors.

23. For example, Ajinomoto Co., Inc. ("Ajinomoto") draws up a value creation story of co-creation of social and economic values through innovation in the products and services in the following businesses: Ajinomoto will resolve issues related to diet and health in association with dietary habits and aging through "unlocking the power of amino acids" by 2030; it specifies six priority businesses, including seasoning, nutrition and processed foods, solutions and ingredients ("S&I"), frozen meals, healthcare, and electronic materials under a vision of co-creation of people's wellness; and makes use of the strength of four intangible assets, including human resources, technologies, customers, and organizations. In addition, it establishes investment amounts and investment percentage goals for intangible assets in the priority businesses.

24. In concrete terms, as a value creation story using human resources (“human capital”), technologies (“intellectual capital”), customers (“social and relationship capital”), and organizations (“intellectual capital” and “human capital”), Ajinomoto explains that human resources (“human capital”) produced highly independent technologies (“intellectual capital”) based on pursuance of unlocking the power of amino acids and, this whole organic connection leads to future financial value by providing products and services using these technologies to customers (“social and relationship capital”) based on trust in the company. Ajinomoto also emphasizes every single employee's aspirations, their passion for these aspirations, and system and culture of the company to achieve these aspirations as assets (“intellectual capital” and “human capital”), and Ajinomoto continually attempts to reproduce the value creation story.

(Reason 2: In order to develop an environment where a company sustainably provides products and services that are solutions to sustainability-related issues)

25. Handling sustainability-related issues, including climate change issues, has a great impact on the sustainability of company. These activities for sustainability-related issues are becoming an underlying basis of business strategy in view of long-term and sustainable value creation. In order to resolve sustainability-related issues, companies are required to create innovations and provide new products and services as solutions for customers. In addition, in order to create innovations and to provide new products and services, investment in and utilization of the company's IP/Intangible Assets are essential.
26. On the other hand, in order to resolve sustainability-related issues and to encourage transformation into new industries and social structures, the expansion of long-term private funding, such as sustainable financing, is essential. Investors are expected to play a role in leading and guiding the transformation of industry and social structures.
27. Furthermore, both companies and investors should make efforts for the resolution of sustainability-related issues. In concrete terms, a company should disclose the investment and utilization strategies of IP/Intangible Assets and clarify the relationship between IP/Intangible Assets and the creation of corporate value. At the same time, Investors are required to encourage companies to create innovation and to provide new products and services by evaluating and investing in companies from long-term perspectives. In addition, companies and investors must have constructive engagements to achieve a virtuous cycle of creation of corporate value and acquisition of investment funds.
28. In order to achieve a virtuous cycle of creation of corporate value and acquisition of investment funds, we believe that integrated disclosure and the appropriate evaluation of the disclosure is necessary. IP/Intangible Assets are important factors in the integration in reporting to connect sustainability-related information and financial information and to achieve integrated, unified, and comprehensive company reports.

Question 7—New research and standard-setting projects that could be added to the ISSB’s work plan: Integration in reporting

(b) In light of the coordination efforts required, if you think the integration in reporting project should be considered a priority, do you think that it should be advanced as a formal joint project with the IASB, or pursued as an ISSB project (which could still draw on input from the IASB as needed without being a formal joint project)?

(i) If you prefer a formal joint project, please explain how you think this should be conducted and why.

(ii) If you prefer an ISSB project, please explain how you think this should be conducted and why.

29. It should be implemented as a formal joint project with the IASB. It is because, from the standpoint of users, they have to consider standards submitted by the IASB and the ISSB respectively. In addition, it is stated in A47 of the Agenda Consultation that "Many respondents to the IASB’s Exposure Draft highlighted the interaction between management commentary and sustainability-related financial disclosures and urged the IASB and the ISSB to work together." We agree with this position.

(c) In pursuing the project on integration in reporting, do you think the ISSB should build on and incorporate concepts from:

(i) the IASB’s Exposure Draft Management Commentary? If you agree, please describe any particular concepts that you think the ISSB should incorporate in its work. If you disagree, please explain why.

(ii) the Integrated Reporting Framework? If you agree, please describe any particular concepts that you think the ISSB should incorporate in its work. If you disagree, please explain why.

(iii) other sources? If you agree, please describe the source(s) and any particular concepts that you think the ISSB should incorporate in its work.

30. We consider that the concept of the "IASB's Exposure Draft *Management Commentary*" (hereinafter referred to as "MC") issued in May 2021 should be included in the discussions of the ISSB. These ideas are important for investors to make decisions. For example, in the MC, the following is indicated as an objective of the revision: "to develop comprehensive requirements that focus on information that investors and creditors need and guidance to help management identify that information and present it clearly." A stylization of disclosure is indicated in examples of "do not always provide investors and creditors with the information they need."

31. In the MC, the following six areas of content are identified: the entity's business model, strategy, resources and relationships, risks, factors and trends in the external environment, and the entity's financial performance and financial position. It then requires disclosure of the company's business model, such as how the company creates value and produces cash flow. We also agree with the idea of emphasizing the capability to produce the cashflow. In particular, we highly appreciate the fact that the report lists the importance of IP/Intangible Assets as an example of a company's important resources from among the resources and relationships, as we recognize the

importance of IP/Intangible Assets.

32. Concerning the relationship between the MC and the IFRS Foundation project on sustainability reporting, the MC states that "The Board envisages that entities could apply the Practice Statement in conjunction with narrative reporting requirements or guidelines addressing specific topics, such as sustainability matters." Therefore it is estimated that the MC has an impact on the standards created by the ISSB to an extent.
33. We consider that the concept of the Integrated Reporting Framework should be included in the discussions of the ISSB. The Integrated Reporting Framework is characterized by integrated thinking that focuses on the creation of value over the short, medium and long term. It also promotes a more cohesive and efficient approach concerning company reports. We agree with this approach.
34. In order to give a comprehensive explanation of the connection through which sustainability-related information leads to value creation, a company is required to explain the value creation process from input until outcome. In concrete terms, based on business goals, such as the resolution of social issues, the achievement of purposes and visions, a company is required to provide products and services that lead to the resolution of social issues, including environmental issues, through investment in and utilization of intangible assets, such as technology development (intellectual capital), production system/sales/procurement channels (society and relationship capital), and to give an explanation to customers that the company can continue acquiring sales and profits.
35. Our Guidelines present a comprehensive idea of the value creation story through investment in and utilization of IP/Intangible Assets. In concrete terms, Our Guidelines explain a series of cycles: creating competitive businesses based on IP/Intangible Assets that have an advantage in filling in the gap between the future state (To Be) and current state (As Is) of a company in order to achieve business philosophy and management goals that the company targets; creating social value and economic value by providing products and services that lead to resolving social issues; and re-investing created value in IP/Intangible Assets. In light of the octopus model of the Integrated Reporting Framework, this can be considered to be the flow of the process of inputs, business activities, outputs, and outcomes.
36. After IIRC published a draft of the Integrated Reporting Framework in 2013, more than 800 companies autonomously issued integrated reports, which is disclosed voluntarily in Japan. Integrated thinking has become established in companies in Japan.
37. We consider that the concept of Our Guidelines should be included in the discussions of the ISSB. In particular, the concept of a "Communication Framework" that can be used for promoting engagement between companies and investors that are described in Our Guidelines should be included in the framework for integration in reporting.

38. The communication framework consists of three elements. The first element is a "story backcast from the business portfolio transformation." It connects investment in and utilization of IP/Intangible Assets with a desired business model. The second element is an "intended causal path (relationship)" that connects IP/Intangible Assets with the company's outcome through hypothesis thinking when explaining the story. It is created in detail, explaining such matters as "why and how its IP/Intangible Assets, which are the competitive differentiators of its highly effective products and services, differ from those of other companies and over what time horizon they will lead to a sustainable and competitive business model." The third element is "a linkage with management indicators (e.g., ROIC) to IP/Intangible Assets," which is explained by linking investment in and utilization of IP/Intangible Assets to management indicators (e.g., ROIC) at the corporate level in order to define the "story backcast from the business portfolio transformation" and the "intended causal path." Holding interactive communications between companies and investors in accordance with the communication framework enables the realization of corporate value.

(d) Do you have any other suggestions for the ISSB if it pursues the project?

(Separating comparability and uniqueness)

39. The IFRS Foundation aims to bring transparency to the financial market by enhancing international comparability and the quality of financial information. For this reason, its standards are based on the assumption of global application. We understand that the IFRS Foundation adopted principles-based approach in order to make it flexibly applicable to different laws and systems depending on the region and country. We support the standpoint of the IFRS standards.

40. Under conditions where the source of company competitiveness and business models become diverse and there are companies intending to transition to a new business model or business type, it is difficult to appropriately evaluate corporate value by stylized disclosure alone. Therefore, in order to appropriately evaluate corporate value, companies are required to explain their own value creation process along with comparability.

41. If the items to be disclosed become excessively detailed, it will cause negative and stylized disclosures. Therefore, it is necessary to avoid obscuring the relationship between the disclosed information and corporate value. Consequently, in order to appropriately evaluate corporate value, it is preferable to use the comparability of details of disclosure and the uniqueness of details of disclosure to explain the relationship with corporate value separately in an appropriate manner.

(Organizing positions of frameworks and their relationships)

42. The IFRS Foundation completed the integration of the IFRS Foundation and VRF in August 2022. We understand that this integration was conducted in response to the demand from capital market players for integration and simplification of the IFRS Sustainability Disclosure Standards. Activities related to the IFRS Foundation's Sustainability Disclosure Standards are to provide a comprehensive global baseline

for the evaluation of corporate value. These activities emphasize the investors' perspectives and we also support these activities.

43. Sustainability-related information has an impact on the evaluation of corporate value; however, there are various frameworks, including the IIRC'S Integrated Reporting Framework and the MC. In addition, for example, there are differences in definitions and models between the IIRC'S Integrated Reporting Framework and the MC. The IFRS Foundation is in a position to supervise all of these frameworks. Therefore, we request that the IFRS Foundation organizes the positions of frameworks, their relationships, terms and models. We consider that investor and company can understand various kinds of frameworks very well if comprehensive concept related to the creation of corporate value is organized and then discussions of information disclosure related to individual projects (human rights, human capital, biodiversity, etc.) are implemented.

(Relationship with the IASB's projects on intangible assets)

44. We consider that IP/Intangible Assets and human capital should be included proactively in the framework when implementing a project for integration in reporting. On the other hand, we recognize that the IASB indicated in the Third Agenda Consultation, etc. that a project related to intangible assets will be implemented. For example, the IASB indicated a comprehensive revision of IAS No. 38 as a proposal of a project related to intangible assets. It also indicated that the project is complicated and it may take time. We consider that it is highly likely that the IASB, concerning intangible assets, requires the disclosure of information with a high level of maturity related to the linkage with short-term financial performance, while the ISSB requires the use of non-financial information that leads to long-term financial performances for analysis. Based on these perspectives, we consider that it is preferable for the ISSB to request to disclose more proactively intangible asset information that is highly connected with long-term financial performances related to sustainability-related issues. We consider that the ISSB should emphasize consistency and conformance with the IASB. However, if it takes time to adjust to them, it may be better to promote the formation of rules based on each position. For this reason, we consider it preferable to establish rules related to IP/intangible Assets in the ISSB's Integration in Reporting.

Question 8 Do you have any other comments on the ISSB's activities and work plan?

No, we do not.

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