Ⅲ Summary of Articles

Sustainability Disclosures in Internet Era

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This paper examines establishing process of sustainability information disclosure movements historically, and attempts to analyze it in relation to the current development of the internet society.

First, in the expansion process of sustainability information disclosure, there has been a rise in global environmental awareness, an increase in demands for corporate social responsibility, the globalization of corporate activities and the accompanying complexity of supply chains, and momentum of investors' investment attitudes and awareness towards sustainability.

Next, the current status of sustainability information disclosure in the ongoing internet society has been considered. The evolution of the internet has made it possible to improve information transparency, to form new consumers' sustainability-oriented behaviors, and to provide sustainable solutions through digital technology, resulting in changes in individual consciousness and values for sustainability in the society. These innovation and creativity in the internet era of our society can be opportunity to promote the paradigm shift from shareholder capitalism to stakeholder capitalism from the perspective of economic thoughts.

Summary of IFRS Sustainability Disclosure Standards S1 and S2

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The momentum surrounding sustainability disclosure is accelerating globally. In November 2021, the IFRS Foundation established the International Sustainability Standards Board (ISSB) and progressed in developing IFRS Sustainability Disclosure Standard that will provide a comprehensive global baseline of high-quality, focusing on sustainability-related financial disclosure as supplementary information to financial statements. These IFRS Sustainability Disclosure Standards consist of three components: "General Requirements," "Thematic Requirements," and "Sector-specific Requirements," all of which are applied as an integral whole.

In June 2023, the ISSB announced the first two sustainability disclosure standards: IFRS S1, "General Requirements for Disclosure of Sustainability-related Financial Information," and IFRS S2, "Climate-related Disclosures." The IFRS Sustainability Disclosure Standards call for the disclosure of sustainability-related risks and opportunities that could reasonably be expected to affect the entity's prospects. In this context, the entity's prospects mean the entity's cash flows, its access to finance and cost of capital over short, medium and long term. The disclosure is to provide investors and others with useful information for their decision-making for valuation. The disclosed "Core Content" requirements include "Governance," "Strategy," "Risk Management," and "Indicators and Targets."

This paper outlines the overall framework of these IFRS Sustain- ability Disclosure Standards, provides an overview of IFRS S1 and S2, and concludes by addressing the future actions of the ISSB and developments in Japan.

Impact Finance and Sustainability Information Disclosure
- Insights from S Indicators -

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In this article, I examine the ideal form of sustainability information disclosure by focusing on the information needs of investors, who are the primary users of such information. The growing attention to sustainability information disclosure is driven by a new trend in investor behavior known as ESG investment or Sustainable Finance. However, the practice of ESG investment and Sustainable Finance is not uniform or static; it continues to evolve. In particular, the Principles for Responsible Investment (PRI), which has been at the forefront of ESG investment, has heightened interest in sustainability impact with the introduction of the concept of Investing for Sustainability Impact (IFSI).

IFSI is divided into ultimate ends IFSI and instrumental IFSI based on the motivational aspect. Instrumental IFSI, in particular, involves considering sustainability impact due to externalities such as climate change and the expansion of economic inequality, which ultimately erode long-term investment value. This calls for investment decisions that differ from traditional risk and return-based evaluations, prompting a shift in investor information needs. In this context, it is necessary to examine, from the perspective of information usefulness, the extent to which convergence from domestic standards to international standards should be sought. Regarding this aspect, it is essential to focus on social (S) issues, such as decent work and gender equality from the view point of significant variations in institutional frameworks and employment practices among countries.

Mandatory Disclosure of Human Capital and Related Issues

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Under the current financial reporting system, human capital is treated as a “cost” and cannot be recognized as an “asset” on the balance sheet. In Japan, disclosure of human capital information has become mandatory in annual securities reports.

In this paper, this paper examines how human capital information should be disclosed from two perspectives: “reframing” and “scope”. Additionally, this paper analyzes the contents of descriptive information regarding sustainability and human capital information in annual securities reports.

Disclosure of Income Tax Information: Compulsory disclosure based on the EU Accounting Directive

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Tax payments by multinational corporation (MNCs) are a distribution of profits to the state or region. Aggressive tax avoidance by MNCs weakens the fiscal foundation of host countries and worsens public sentiment. In recent years, the EU (European Union) has been concerned about tax erosion caused by tax avoidance. In December 2021, the EU revised the Accounting Directive (2013/34/EU) to mandate the disclosure of Country- by-Country Report (CbCR) on corporate income taxes as part of its measures to address tax avoidance. The mandatory disclosure applies to MNCs with consolidated revenue exceeding 750 million euros, including (1) those headquartered within the EU, or (2) those headquartered outside the EU but with subsidiaries or branches located within the EU. Since the latter includes Japanese companies, many Japanese companies with subsidiaries or branches in the EU will be mandated to disclose the CbCR from fiscal years beginning on or after June 22, 2024, at the latest.

However, the CbCR contains not only tax payments, but also information on profitability and productivity by country. Therefore, it is expected to have richer information content surpassing the existing geographic segment information, making it highly useful for traditional investment decision-making. This paper examines the significance and challenges of the CbCR disclosure by Japanese companies, focusing on the situation where sustainability information and traditional disclosure information intersect.

Discussion on “Trends in Sustainability Disclosure Systems” and “Impact Finance and Sustainability Information Disclosure”

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The purpose of this paper is to organize and discuss the overview and characteristics of both Saka [2024] and Mizuguchi [2024], along with addressing their respective challenges. In Saka [2024], a comprehensive explanation is provided regarding the background of sustainability disclosure standards, domestic and international trends, societal significance, and sustainability disclosure cases of Japanese companies. The characteristics of the paper lie in its comprehensiveness, international perspective, clarification of problem awareness, practical viewpoint, and timeliness. The points highlighted as a discussant include the recipients and content of sustainability information disclosure, methods contributing to the internalization of externalities, the importance of considering societal significance, and approaches to addressing ESG wash. Saka [2024] presents significant discussions on sustainability disclosure systems, emphasizing the importance of further delving into these discussions to achieve more effective sustainability information disclosure. In Mizuguchi [2024], detailed analysis is conducted on how the scope and content of sustainability information disclosure would change if the decision-making purposes of investors expanded from solely evaluating corporate value to including impact assessment. The characteristics of the paper lie in its comprehensiveness, detail-oriented approach, international perspective, responsiveness to diverse information needs, integration of theory and practice, and recognition of regional adaptability. The points highlighted as a discussant include detailed aspects of investors seeking impact-related information, considerations of balancing risk, return, and impact, the relationship with fiduciary duty, qualitative characteristics of impact-related information, and the balance between international uniformity and national specificity. Mizuguchi [2024] presents significant discussions on impact finance, emphasizing the importance of continuing these discussions and ongoing efforts to achieve a better society and environment.

Discussion on Research Presentations by Professor Shimanaga and Professor Nakano

Kazuhisa OTOGAWA
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I briefly summarize my discussion comments on research presentations by Professor Shimanaga (Kobe Gakuin University) and Professor Nakano (Hosei University). Professor Shimanaga investigates the mandatory disclosure information of human capital in securities reports, which has been expanded from the fiscal year ending March 2023. Professor Nakano examines the voluntary disclosure information of tax policy and country-by-country tax payment status on official websites. They are new research topics and the actual disclosure practices by firms has not yet been fully revealed, so the results are very valuable. I also have great expectations for the future development of research because there are various other research opportunities.

Non-Financial Information for Valuation

Chairperson: **Tomoki OSHIKA** (Waseda University)
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In recent years, discussion on institutionalizing the disclosure of non-financial information to enhance the decision-making usefulness of financial capital providers, is actively debated. In Japan, some non-financial information has begun to be disclosed in securities reports in 2023. Furthermore, the International Sustainability Standards Board (ISSB) is working on developing disclosure standards. While there is no major disagreement about expanding the disclosure of non-financial information, there are still many issues to be considered.

Our research group aims to examine the nature of non-financial information from both the perspective of managers who disclose the information and from the perspective of investors who use the disclosed information. We also employ multiple research approaches, including model analysis, empirical analysis, interviews, and questionnaire surveys.

In this interim report, we first summarize the current state of institutional disclosure of non-financial information as well as the changing history of the institutions and organizations which lead the discussion on non-financial information. We then conduct a value relevance analysis for equity investors, users of such information, based on environmental non-financial information that is currently available.

Next, we outline the purpose and content of the questionnaire survey that we plan to conduct for companies managements, who are the information preparers. After that, we review the research themes and the research approaches in conventional management accounting research in preparation for research applying on non-financial disclosure from a management accounting perspective to propose a research plan for the next year. Finally, we apply the research on real effects (the interaction between capital market valuation and corporate real activities) that has been conducted on financial information to non-financial information, and show the results of the analysis based on mathematical models.