ESG Disclosure Study Group
June 30th, 2022

# 4th Activity Report – Executive Summary

## Study of Specific ESG Information Disclosure Practices

In Phase 4 (October 2021 to March 2022) we conducted case studies on how to improve the efficiency of ESG information disclosure by listed companies and examined non-financial indicators and effective disclosure methods that lead to long-term value creation from both cross-industry and industry-specific perspectives, based on issues related to ESG information disclosure by listed companies identified in Phases 1, 2, and 3 and a systematic organization of practical solutions to such issues.

## Results of Study by the Working Group on Business Improvement

A questionnaire conducted on report-issuing members brought to light three priority ESG information disclosure issues to be addressed: explaining the need for ESG information disclosure to internal stakeholders, unifying data definitions, and streamlining the data collection process. Four member companies presented case studies of their own initiatives addressing these three issues, based on which we derived the following insights.

| Priority issue | # | Insight gained |
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| Explaining the need for ESG information disclosure to internal stakeholders | 1 | Devote time to communicating with top management and employees, using internal editions of integrated reports, in order to disseminate understanding throughout the company of the need for ESG information disclosure. |
| | 2 | Create a corporate culture that encourages employees to speak up (e.g., have management visit employee workplaces and engage in dialogue with employees). |
| | 3 | Devise methods for planning and preparing feasible initiatives (e.g., role assignment with consideration for member characteristics, selection of outsourcing and in-house production, etc.) |
| | 4 | Design effectiveness measurement in line with the aims of initiatives to promote internal dissemination (e.g., for employees to develop an interest in, sympathize with, and implement initiatives). |
| | 5 | Implement initiatives such as internal dissemination of sustainability/ESG management from the standpoint of stakeholders (employees). |
| | 6 | Implement and expand initiatives by starting small, such as from one department, while building up case studies. |
| | 7 | Encourage business departments to voluntarily come up with their own sustainability goals, rather than having them imposed by management. |
| | 8 | Have officers in charge develop a sense of mission regarding ESG information disclosure (e.g., by concurrently fulfilling HR and PR roles). |
| | 9 | Develop initiatives that involve employees through the commitment of leaders at the working level (e.g., heads of business departments). |
| Unifying data definitions | 10 | Utilize standards from public organizations such as the ISO (e.g., application of ISO 30414 for human capital reporting). |
| | 11 | Utilize information systems for the common collection of data at a global level. |

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| Streamlining the data collection process | 12 | Design systems from the perspective of overall optimization, considering linkage with existing internal systems. |
| | 13 | Acknowledge the need for sufficient funding and time when designing and implementing systems. |
| | 14 | Devise ways to motivate data entrants to provide information (e.g., by enabling comparisons between departments to check progress). |
| | 15 | Consider the merits for data providers (e.g., have individual providers fill out questionnaires to obtain a clearer picture of their needs). |

In summary, we found that cooperation with management and other departments is necessary to address the growing issue of sustainability, and that it is important to motivate all those involved by making sustainability a personal issue.

## ■ Results of Study by the Working Group for Cross-Industry Indicators

Based on a questionnaire sent to listed companies and institutional investors, of the 18 common cross-industry themes identified in Phase 3, the following three were identified as themes to watch particularly closely over the next three years: corporate governance, people (human rights, diversity, and human resource development), and climate change and biodiversity.

Regarding the theme of corporate governance, to promote understanding of the roles and responsibilities of the Board of Directors in creating long-term value, the importance of disclosing the content of board discussions and the skills of board members was emphasized.

Turning to the theme of people (human rights, diversity, and human resource development), the importance was demonstrated of remaining aware of global trends and disclosing not only quantitative information but also qualitative information, such as relevance to strategy.

For climate change, the involvement of the Board of Directors and the quantification of financial impacts were confirmed as issues that must be addressed. It also became clear that presenting long-term goals and a roadmap would be effective in showing the connection to long-term value creation.

We gained the following insights into the ideal form of cross-industry indicators.

-Companies should set their own indicators based on industry and regulatory trends. Additionally, since the importance of themes may change in the future, companies must remain aware of trends in ESG issues and company-specific circumstances.

-Investor understanding should be promoted by adopting indicators necessary for explaining long-term value creation and clarifying why the indicators were adopted and how they should be interpreted.

-Top management should present a coherent message outlining the company's future goals and the long-term value creation story leading to such goals, from both financial and non-financial perspectives.

## ■ Results of Study by the Working Group for Industry-Specific Indicators

We gained the following insights based on discussions regarding non-financial indicators with listed companies and institutional investors in five selected industries: automotive, commercial banking, pharmaceuticals, chemicals, and construction materials.

- ✓ To implement corporate reporting and dialogue that contribute to long-term value creation, both report issuers and investors must be aware of and understand industry-specific material topics and related non-financial indicators. The SASB's industry-specific standards are an effective starting point for discussion.
- ✓ Since the SASB's industry-specific standards focus on risk aspects, it is preferable from the perspective of long-term value creation to cover not only risk aspects but also opportunity aspects when explaining industry-specific material topics and non-financial indicators.
- ✓ Regional characteristics must be taken into consideration, as the SASB's industry-specific sustainability disclosure topics include some topics that have little financial impact for Japan and other regions.
- ✓ It is important to understand changes in the business environment and industry trends, as the industry-specific financial impact of a topic may change in degree.
- ✓ The range of non-financial indicators that industry-specific stakeholders are expected to disclose is highly diverse, but companies must select and explain important non-financial indicators from the perspective of long-term value creation.
- ✓ Even industry-specific non-financial indicators must be disclosed in line with the company's value creation story and business model to deepen investors' understanding of the company's long-term value creation.

## ■ Future Plans

We will publish an activity report summarizing the results of the study group's deliberations from Phases 1 to 4 and our recommendations to institutional investors, listed companies, and standard-setting bodies in June 2022.

## ■ Message

Non-financial information disclosure should provide insights useful to investors as they make investment decisions and engage in dialogue. However, the methods used by investors to manage their investments vary, as do the ways in which they use non-financial information.

Some investors use non-financial information with a focus on reductions in financial value (risk aspects), while others use non-financial information with a focus on increases in financial value (opportunity aspects). Investors can be categorized into two types: passive investors and active investors. There is no clear distinction between the two types in terms of how non-financial information is used, as some passive investors are also focused on realization of long-term corporate value creation stories, aiming to increase corporate value through dialogue. However, it is fair to say that most active investors want to know whether a company can realize its long-term value creation story. Meanwhile, some companies focus on understanding the status of their own initiatives through comparisons of non-financial information both with other companies and over time, while others integrate their use of non-financial information and financial information to realize a long-term value creation story specific to their own company.

In Phase 4, institutional investors and report-issuing companies joined the working groups for cross-industry indicators and industry-specific indicators for lively debates on the nature of non-financial indicators regarding specific sustainability challenges as viewed from both perspectives. Companies deepened their understanding of investor thinking on the background to and basis of the required indicators and disclosure items set out in disclosure standards such as SASB and GRI, seemingly gleaning new ideas for their own disclosure activities. Meanwhile, hearing directly from companies about implementation issues appeared to give investors some suggestions for future engagement with companies. Through these debates, both investors and companies not only made new discoveries about the nature of non-financial indicators for long-term value creation stories on both sides, they also deepened their mutual understanding of each other's positions— a successful result for Phase 4.

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