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Roadmap for Statutory Corporate Disclosure of Sustainability Information in Japan

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Introduction

On July 17, 2025, the Working Group on the Disclosure and Assurance of Sustainability-related Financial Information ("Working Group") of the Financial System Council in the Financial Services Agency of Japan published a roadmap paper for introducing in Japan statutory disclosure standards equivalent to the IFRS Sustainability Disclosure Standards set by the International Sustainability Standards Board ("ISSB")¹. The roadmap paper outlines the current status and direction of discussions on the incorporation of the sustainability disclosure standards set by the Sustainability Standards Board of Japan ("SSBJ") into the statutory disclosure framework of the Financial Instruments and Exchange Act of Japan ("FIEA"). According to the roadmap paper, Prime Market-listed companies with certain significant market capitalization will be required to disclose sustainability information in accordance with the standards of the SSBJ. The roadmap paper is intended to provide an interim summary of the relevant issues, and a definitive conclusion will be considered in the future.

This newsletter offers an overview of the roadmap paper.

Roadmap for introducing SSBJ Standards and Assurance

Under the current FIEA, listed companies and certain other companies must generally disclose annual securities reports within three months of the end of each fiscal year. These reporting companies must include the disclosure of sustainability information in their annual securities reports. The sustainability section comprises four elements: governance, strategies, risk management, and metrics and targets. The current disclosure rules under the FIEA do not set specific standards for sustainability issues, including climate change. Consequently, the quantity and quality of sustainability information disclosed varies depending on the discretion of each reporting company.

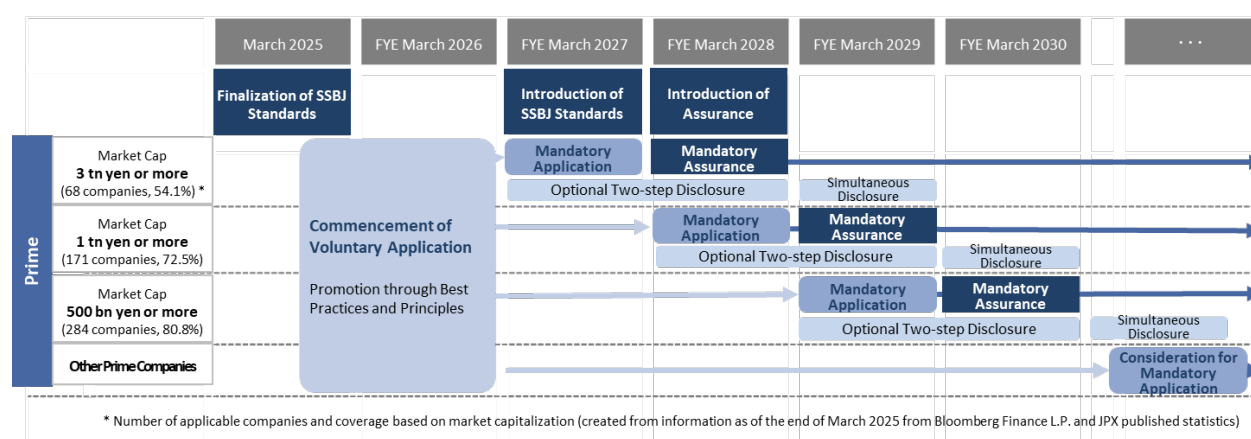
In March 2025, the SSBJ set three sustainability disclosure standards (collectively, the "SSBJ Standards"):

- (i) the Universal Sustainability Disclosure Standards "Application of the Sustainability Disclosure Standards;"
- (ii) Theme-based Sustainability Disclosure Standard No. 1 "General Disclosures;" and
- (iii) Theme-based Sustainability Disclosure Standard No. 2 "Climate-related Disclosure."

These standards are more detailed and aim to promote globally consistent and comparable disclosures for capital markets. They are based on the IFRS Sustainability Disclosure Standards, which establish a global baseline for sustainability disclosures. Since the SSBJ Standards are not laws or regulations per se, the Working Group has discussed how to incorporate the SSBJ Standards into the statutory disclosure items within annual securities reports. The roadmap is as follows:

¹ https://www.fsa.go.jp/singi/singi_kinyu/tosin/20250717.html (Japanese text only)

Roadmap for Implementation of the SSBJ Standards



Source: English translation prepared by us based on "Roadmap for the Application of Sustainability Disclosure Standards and the Introduction of an Assurance Framework" published by the Working Group on July 17, 2025

Subject Companies and Implementation Timeline

In accordance with the roadmap, the timings for the implementation of the SSBJ Standards and third-party assurance for companies subject to these standards are as follows:

Subject Companies	Timing for Implementation of SSBJ Standards	Timing for Implementation of Third-Party Assurance
Prime Market-listed companies with a market capitalization of 3 trillion yen or more	Fiscal year ending March 2027	Fiscal year ending March 2028
Prime Market-listed companies with a market capitalization of less than 3 trillion yen but 1 trillion yen or more	Fiscal year ending March 2028	Fiscal year ending March 2029
Prime Market-listed companies with a market capitalization of less than 1 trillion yen but 500 billion yen or more	The basic target is fiscal year ending March 2029, subject to further discussion based on domestic and international trends and other factors. Aim to reach a conclusion by the end of 2025.	The fiscal year following the implementation of the SSBJ Standards
Prime Market-listed companies with a market capitalization of less than 500 billion yen	Continue to review in light of companies' disclosure status, investor needs and other factors. Aim to reach a conclusion within several years.	

When considering the scope of subject companies, the Working Group referenced the Jurisdictional Guide published by the ISSB in 2024. The Jurisdictional Guide provides guidance for jurisdictions introducing local sustainability disclosure standards that ensure functional alignment with the IFRS Sustainability Disclosure Standards. Companies listed on the Prime Market with a market capitalization of 1 trillion yen or more account for over 70% (171 companies) of the total market capitalization of all companies listed on the Tokyo Stock Exchange. Considering the statistics, the Working Group expects that the IFRS Sustainability Disclosure Standards will be considered "fully transposed" into the regulatory framework of Japan when the SSBJ Standards are applied to these companies. The method for calculating market capitalization will be discussed further in the future.

Furthermore, due to the varying levels of preparedness among companies in responding to sustainability disclosures under the current legal framework, as well as the significant disparities in the available disclosure resources, the Working Group considered it reasonable to introduce the SSBJ Standards in phases based on the

scale of market capitalization. In addition, third-party assurance will be introduced starting from sustainability information for the fiscal year ending March 2028. This is prior to the implementation of the disclosure of sustainability information by non-EU companies under the EU Corporate Sustainability Reporting Directive ("CSRD") for the fiscal year ending March 2029 (for companies with a March fiscal year-end). The application of the SSBJ Standards is anticipated to begin in relation to sustainability information for the fiscal year ending March 2027, preceding the introduction of third-party assurance.

Additionally, the European Commission proposed an "Omnibus Bill" to relax the CSRD regulations in February 2025. Considering this trend, the Working Group takes a position that there are significant differences between the situations in the EU and Japan. In particular, the EU aims to introduce the CSRD across a wide range of companies, including non-listed companies, while Japan aims to introduce the SSBJ Standards and third-party assurance for a limited scope of companies. Therefore, the Working Group concluded that this trend in the EU does not affect Japan's roadmap.

Two-step disclosure as a transitional measure

Some companies may initially have difficulty preparing annual securities reports that comply with the SSBJ Standards by the deadline, which is within three months of the end of each fiscal year. The SSBJ Standards stipulate that sustainability-related financial disclosures must be reported "simultaneously" with the financial statements included in the annual securities report. However, the SSBJ Standards allow for an exception to such simultaneous reporting if it is permitted by law. Considering this, the roadmap paper proposes introducing a two-step disclosure process as a transitional measure. Specifically, for the first two years (beginning on the year that the SSBJ Standards take effect and continuing through the first year of third-party assurance), companies can opt for the two-step disclosures instead of the simultaneous disclosures, which means that companies may disclose the annual securities report with the financial statements as the first step by the deadline of the annual securities report, and then disclose sustainability-related financial information as the second step by the deadline for semi-annual securities reports.

Liability for misstatements in annual securities reports

According to the FIEA, a reporting company may be liable for damages to investors and subject to penalties or other sanctions if its statutory disclosure documents, including annual securities reports, contain false statements, omissions or misleading information ("misstatements") in material respects.

In this context, compared to financial information, sustainability information is considered to have relatively higher uncertainty due to the following characteristics:

- ✓ Under the SSBJ Standards, companies must disclose "material" information regarding sustainability-related risks and opportunities that is reasonably expected to affect their prospects. However, the scope of this "material" information varies depending on each company's judgment; and
- ✓ Sustainability information includes significant qualitative information, estimates, and forward-looking information. Disclosure of information obtained from third parties outside the company's control, such as Scope 3 GHG emissions (emissions from the company's value chain), is also required.

If companies become overly concerned about liability risks due to such uncertainties and avoid the proactive disclosure of useful information in annual securities reports, it would undermine the expected improvement in sustainability information disclosures. Therefore, the roadmap paper proposes a safe harbor for liability for misstatements to enhance the level of disclosure in annual securities reports. The concept of such safe harbor is as follows and further discussions on the details are ongoing.

Safe Harbor Concept

Item	Summary
Scope	Misstatements of Scope 3 GHG emissions
Requirements	<p>Must meet both of the following criteria:</p> <p>(i) The appropriateness of using information obtained from third parties outside the company's control, including the appropriateness of the source of the information, and the reasonableness of the estimates have been appropriately reviewed internally and explained.</p> <p>(ii) The content of the disclosure is generally considered reasonable.</p>
Effect	Even if it is later found that the quantitative information regarding Scope 3 GHG emissions is incorrect, the company will not be liable for the misstatements if the requirements are met.

Third-party assurance of sustainability information

Designing a third-party assurance system for sustainability information is a significant issue that will affect the practical burden on reporting companies. The Working Group has formed an expert subgroup to discuss this matter. While the Working Group has not yet reached a consensus on all issues, the following is a summary of the discussions to date.

Status of discussions on assurance

Item	Summary
Scope of Assurance	<ul style="list-style-type: none"> • Scope 1 and Scope 2 GHG emissions, governance, and risk management, for the first two years from the start of third-party assurance. • From the third year onwards, to be reviewed in the future based on international trends and other factors.
Level of assurance	<ul style="list-style-type: none"> • Limited assurance will be required. • No transition from limited assurance to reasonable assurance.
Eligibility of assurance service providers	<ul style="list-style-type: none"> • No consensus. Opinions in the Working Group include: "Should not be limited to audit firms," "Should be limited to audit firms," amongst other opinions. • Further discussion will be conducted, and it is appropriate to reach a conclusion by the end of 2025.

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