

# Key Topics



Key Topic

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Our sustainability initiatives

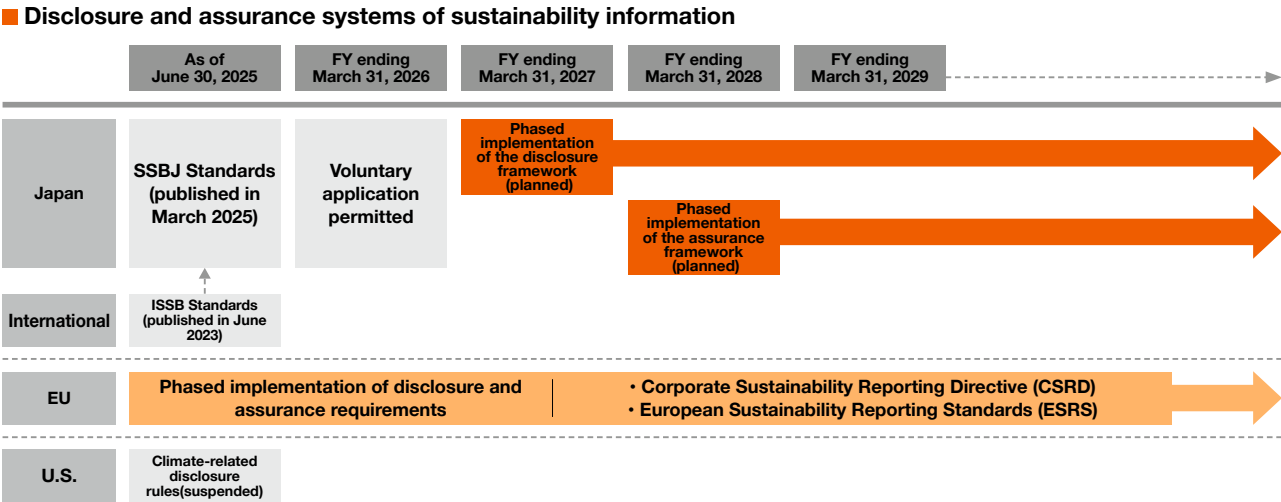
## Sustainability trends in 2025

In response to the growing need for sustainability information disclosure, Japan is moving toward institutionalising detailed disclosure and assurance of sustainability information. In March 2025, the Sustainability Standards Board of Japan (SSBJ) issued its inaugural sustainability disclosure standards. The standards will become mandatory in a phased manner for companies listed on the Prime Market of the Tokyo Stock Exchange, with a market capitalisation of ¥3 trillion or more, starting from the fiscal year ending March 2027. Subsequently, they will be applied in a phased manner based on the size of market capitalisation.

Once the SSBJ standards take effect, companies will be required to disclose sustainability information in their annual securities reports in accordance with the standards. Third-party assurance of the disclosed information is expected to be required from the year following the initial application.

These developments in Japan are affected by global trends. The EU began the phased implementation of the Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS) in 2024, both of which require third-party assurance. In the U.S., although climate-related disclosure rules adopted by the U.S. Securities and Exchange Commission (SEC) in 2024 are currently suspended, California has enacted a climate disclosure law. The International Sustainability Standards Board (ISSB) published its inaugural IFRS Sustainability Disclosure Standards in 2023. The SSBJ standards align with the ISSB standards.

As we approach mandatory disclosure and assurance of sustainability-related information in Japan, companies subject to the SSBJ Standards need to assess whether they have a framework in place to ensure the disclosure of reliable information. This assessment should consider both the intent of the standards and the company’s own circumstances.



## Dialogue

How audit firms can play a key role in ensuring reliable sustainability information



Moderator Hideaki Endo  
Senior Officer  
Sustainability Assurance Group  
Leader of Audit General Management Office

**Endo:** To begin, could you share your current division, responsibilities and professional background?

**Nakamura:** After engaging in financial statement audits and conducting research on accounting standards as a Risk & Quality member, I was seconded to PwC Consulting LLC, where I supported IFRS adoption and corporate turnaround projects. Currently, I am a member of Sustainability Advisory, working on engagements related to sustainability disclosure.

**Konishi:** I began my career in financial statement audits and IFRS adoption support, followed by quality management activities as a Risk & Quality member. I was then seconded to the Accounting Standards Board of Japan (ASBJ) and the Sustainability Standards Board of Japan (SSBJ), where I was involved in standard development. Now, I am engaged in quality management and assurance activities related to sustainability disclosures.

**Endo:** In Japan, the likelihood of sustainability information being included in annual securities reports is increasing. What types of advisory services are currently in demand?

**Nakamura:** The inclusion of such information in statutory filings, such as annual securities reports, requires a higher level of reliability. As a result, there is growing demand for advisory services that help clients comply with the SSBJ standards and establish processes to enhance the reliability of disclosures. More companies are voluntarily disclosing information on topics such as human capital and biodiversity, which are expected to be incorporated into statutory reporting in the future. We provide

services tailored to these diverse needs.

**Endo:** You were deeply involved in developing the SSBJ Standards. What is the purpose of sustainability-related financial disclosures?

**Konishi:** Similar to financial statements, the primary intended users of sustainability disclosures under the SSBJ Standards are capital providers, such as investors. Sustainability disclosures are designed to provide contextual information that helps users better understand financial statements, which is why the connectivity between the two is considered essential. Sustainability disclosures require companies to identify risks and opportunities that could reasonably be expected to affect future cash flows or financing, thus requiring a management perspective. For this reason, in providing assurance on sustainability disclosures, gaining a deep understanding of both the company and its financial statements is essential.

**Endo:** What are the benefits for companies from enhancing their sustainability disclosures, and what challenges do many companies face in the process of preparing these disclosures?

**Nakamura:** Sustainability information plays an increasingly important role in the decision-making of stakeholders, including investors. Complying with the relevant disclosure requirements is part of a company’s responsibility to address such stakeholder needs. At the same time, it presents an opportunity to take a more holistic view of business management; for example, reflecting on the company’s vision for value creation. However, those in charge of preparing disclosures at companies often come from diverse professional backgrounds, which makes it challenging to align perspectives across the organisation. This is a common issue observed in many companies.

**Endo:** What is the significance of obtaining third-party assurance for sustainability disclosures ?



**Konishi:** Sustainability assurance not only enhances the reliability of sustainability information but also promotes the development of internal controls capable of withstanding assurance procedures. This is expected to enable a more stable input

of information useful for business management. Additionally, the SSBJ Standards include many disclosure items that require a management perspective. For example, risks and opportunities covered in sustainability disclosures are considered key management issues. Through discussions between management and assurance providers, companies may also benefit from more accurately identifying key management issues.

**Endo:** We are witnessing a shift in the landscape of voluntary disclosures with numerous disclosure frameworks to mandatory disclosures governed by regulations. What kind of impact will this have on companies?

**Nakamura:** Some companies seem to misunderstand the situation, assuming that simply disclosing existing sustainability information in their annual securities reports will suffice. The SSBJ Standards and other disclosure standards are designed to serve as a minimum common baseline to meet the expectations of a wide range of stakeholders. To meet these expectations, companies need to fully comply with the standards. I believe that a fundamental change in mindset is one of the most significant impacts companies will face.

**Endo:** Can you explain the similarities and differences between audits and sustainability assurance?

**Konishi:** In essence, they are quite similar. Both follow a set of common procedures, including understanding the company's environment, assessing the risk of misstatements, and planning and performing procedures based on assessed risks. However, sustainability disclosures cover a broader range of information, and the approach to assessing materiality can differ. Still, financial statements and sustainability disclosures are considered one set of disclosures. Therefore, financial statement auditors need to read sustainability disclosures and assurance providers need to read financial statements to assess whether there are any significant inconsistencies between the information on which they are expressing an opinion. Because of this,

the knowledge and skills required for both largely overlap.

**Endo:** How is our firm building the capacity to provide sustainability assurance?

**Konishi:** We have already provided mandatory training to approximately 2,000 professionals, which represents most of our audit staff. Since they already have fundamental knowledge of audit and assurance practices, the training has been highly efficient. In addition, our firm published a book titled 'Practical Guide to Sustainability Assurance' (the publisher is CHUOKEIZAI-SHA, available in Japanese only) in March 2025. We are also working to establish and strengthen the system of quality management for sustainability assurance.

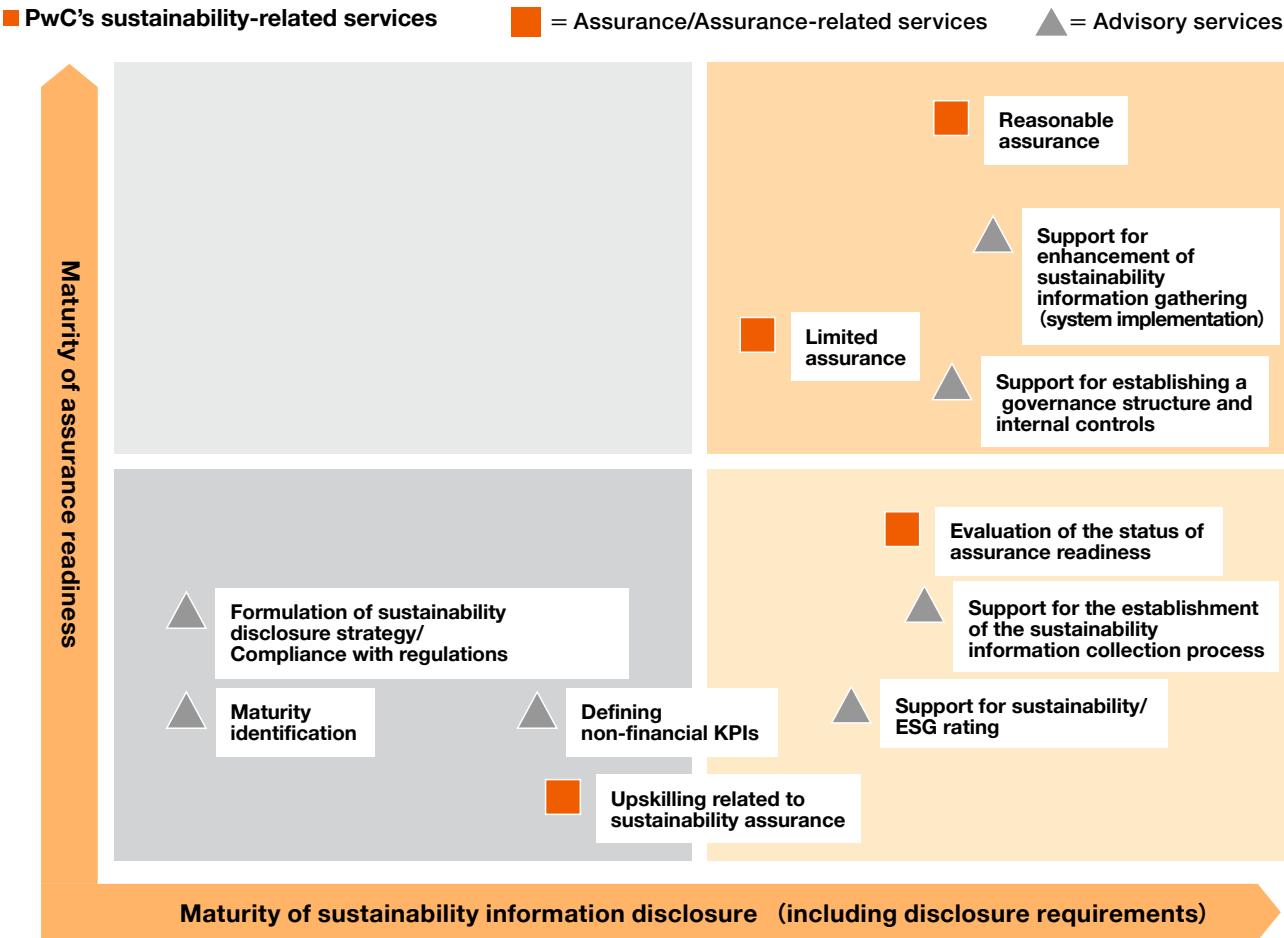
**Endo:** What are the strengths of our firm's sustainability advisory services?

**Nakamura:** In terms of disclosure information, our strength lies in providing support by combining digital platforms and AI tools with the knowledge and experience we have cultivated through financial reporting. Our firm's expertise can also add value to clients in helping their efforts to achieve net zero, as this requires not only disclosure but also concrete action. We also respond to clients' needs to proactively address future mandatory disclosures such as those related to biodiversity and human capital.

**Endo:** Could you share your thoughts on sustainability disclosures?

**Konishi:** Disclosures under the SSBJ Standards are just the starting point. These standards will continue to improve over the next few years. If sustainability disclosures are established as sources of useful information for capital markets and contribute to a better society, there would be no greater joy for me as a member of the standard setting body for the SSBJ Standards.

**Nakamura:** Human history, including but not limited to climate change, can be seen as a history of adaptation. And adaptation takes time to try fail and try again. But if we want to adapt, the most important thing is to start now.



## Sustainability issues and financial statement audit

Meteorological disasters are becoming increasingly severe in various parts of the world and many economists across the globe are beginning to tackle the issue in earnest. There is also a growing interest in climate change issues that have a financially significant impact on entities.

In response to this trend, as part of financial statement audits, we inspect the sustainability information disclosed in annual securities reports, integrated reports and other disclosure documents as necessary, inquire of management and those charged with governance about the process to identify and assess climate change issues that affect the company, and determine whether they may lead to a risk of material misstatements by assessing the likelihood and magnitude of potential misstatements.

If climate change issues relate to accounting estimates, we make careful judgments by taking into account that they may have a broad impact on future business activities and that estimates of impact involve complexity and inherent uncertainties. For the sustainability information disclosed in the annual securities report, which is regarded as 'other information', we read the information and consider whether there is a material inconsistency between the other information and the financial statements and our knowledge obtained in the audit.