

Feature 1 Our sustainability initiatives

Sustainability issues

Sustainability trends in 2024

In response to the growing need for sustainability information disclosure, the expectation to enhance reliable disclosure information is rising.

In Japan, discussions are underway to require detailed disclosure of sustainability information in the annual securities report. Specifically, the Sustainability Standards Board of Japan (SSBJ) has been developing Japan's first sustainability disclosure standards, discussing the scope of regulated companies, timing of application, and implementation of third-party assurance.

Such trends in Japan are affected by global trends. The EU began the phase-in application of the Corporate Sustainability Reporting Directive (CSRD) and the European Sustainability Reporting Standards (ESRS) in 2024. In the U.S., the U.S. Securities and Exchange Commission (SEC) adopted climate-related disclosure rules in March

2024 (suspended as of October 2024). The International Sustainability Standards Board (ISSB) published the IFRS Sustainability Disclosure Standards in 2023, which were endorsed by the International Organization of Securities Commissions (IOSCO) in the same year.

Regulators in several jurisdictions are currently considering adopting the ISSB's standards or implementing national standards based on the ISSB's standards. As mentioned above, in Japan, the SSBJ has been developing standards that align with the ISSB standards.

Compared to the development of accounting standards and other financial reporting requirements, the speed of the development of sustainability disclosure requirements is extremely fast. Therefore, we need to pay attention to this accelerated pace of standard setting.

Social sustainability issues for stakeholders

To realise a sustainable society, it is necessary to make decisions based on highly reliable sustainability information and to implement, maintain and establish behavioural change across jurisdictions and generations. Material information on which decisions are made requires different levels of assurance.

In solving social sustainability issues, we need to consider the following characteristics.

Firstly, as they affect all stakeholders, it is essential to promote a concerted effort across individuals and entities targeting the investment and supply chains. Since the types of sustainability issues are wide-ranging, covering climate change, net zero, biodiversity, human capital, and cyber security, materiality needs to be set for each issue. Secondly, it requires a longer time frame. For example, the outcome of environmental initiatives may be generated only in the next generation, and those involved in the

initiatives may not see their outcome.

Lastly, in this fast-changing society, factors surrounding sustainability (e.g. regimes, technology, people's thinking) may change and may require the redefinition of goals.

Therefore, mutual collaboration and value co-creation among stakeholders will be the key to realising a sustainable society, not solely relying on individual stakeholders' efforts.

There are several means to respond to social sustainability issues (e.g. agile, digital, green, or sustainability transformation) and we combine each to solve issues. This combined approach will require collaboration and co-creation among stakeholders (e.g. regulators, standard-setters, investors, preparers).

Identifying areas with trust gaps and co-developing actions timely and appropriately will help maintain and increase trust. The Firm seeks to play a vital role in this effort.



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Discussion on current trends in disclosure and assurance of sustainability information

Endo : Discussions on the disclosure and assurance of sustainability information are accelerating. Today, we will hear stories from partners who are engaged in assurance services for sustainability disclosures (sustainability assurance).

Takashima : I am leading financial statement audits for technology and entertainment companies. In the area of sustainability, we are providing our clients, including manufacturers and financial service providers, with assurance and governance services related to GHG emissions and other environmental indicators, as well as services related to the disclosure of social indicators.

Sakurai : I serve as an engagement leader for audits of non-ferrous metals, chemicals, and machinery manufacturers. In terms of sustainability assurance, we are providing assurance services mainly related to GHG emissions to the manufacturing industry.

Ishibashi : I am the engagement leader for audits of technology and entertainment companies, and was previously engaged in audits of automobile manufacturers. For sustainability assurance, we provide assurance services related to GHG emissions and other environmental indicators.

Endo : What are the challenges in the disclosure of sustainability information, and how should we, as an audit firm, respond to such challenges?

Takashima : While there are certain differences from financial reporting, the sustainability disclosure standards

also require the disclosure of social impacts, risks, and opportunities (IRO) of corporate activities. Our firm considers sustainability information as future-oriented information that supports companies' medium- to long-term management decision-making, as opposed to information that depicts the outcome of activities in the past. Also, sustainability information and the visualisation of impacts using that information is essential in making decisions that will drive corporate value over the medium to long term. Ensuring the reliability of sustainability information used in companies' initiatives to address sustainability issues is a challenge we should address as an audit firm.

Sustainability assurance has the same feature as financial statement audits in that we provide assurance on companies' published information independently and with knowledge and experience. But compared to financial statement audits, which have a long history, sustainability assurance is still being developed, and its importance is not yet widely acknowledged. Therefore, we need to fill the expectation gap between preparers and users and provide assurance on the reliability of sustainability information, which can be an important indicator for evaluating corporate value. I believe this will help all stakeholders evaluate companies' initiatives to address social sustainability issues more appropriately.

Endo : That aligns exactly with PwC's Purpose. In our capacity as an audit firm, we have a critical role to ensure the reliability of sustainability information, which will add value for clients and eventually help solve problems in society.

Endo : Are there any similarities between financial statement audits and sustainability assurance?

Sakurai : The flow from planning to execution and opinion formation is almost the same as in financial statement audits. Not only the approach, but also the composition of the working papers is similar to those of financial statement audits. Therefore, if you understand and have experience in financial statement audits, you can easily adapt to sustainability assurance.

Endo : What about differences?



Takashima : The length of history differs between financial statement audits and sustainability assurance. Accounting has a set of established standards across the world, and the

audit scope and process are consistent. In terms of sustainability assurance, while the development of disclosure standards is progressing, some companies still use their own criteria. Therefore, we need to consider whether such criteria are useful for evaluating corporate value or can be assured by a third party.

Sakurai : One of the differences is the necessity to consider the reasonableness of criteria established. For example, the criteria for GHG emissions are established by companies that receive assurance based on the GHG protocols. We also need to consider whether the scope of disclosure and assurance are appropriate, which requires careful judgement similar to the scope of consolidation which is a complex issue in financial accounting.

Endo : You are both providing sustainability assurance to your financial statement audit clients. What are the advantages of providing both services to a client?

Takashima : If financial statement auditors also perform sustainability assurance, they can provide a deeper level of assurance as they have first-hand knowledge of the company subject to assurance. Only financial statement auditors are in a position to do so because they understand the client's business characteristics, which areas stakeholders are interested in, and where they want to receive assurance.

Assurance of sustainability disclosures has difficulties that differ from financial statement audits because there is no double-entry bookkeeping mecha-



nism and disclosed information is segmented for a specific period.

Therefore, the accuracy of information, such as the existence, completeness and cut-off of transactions, is more important in sustainability assurance than financial statement audits. If you pay attention to these in financial statement audits, you can perform sustainability assurance more effectively.

Ishibashi : Although the scope of assurance differs between sustainability assurance and financial statements audits, there are a lot of common areas since the figures and information are based on the same business and transactions. Many indicators subject to sustainability assurance are prepared using the indicators subject to financial statement audit (e.g. sales data), or require an analysis by using financial figures. Therefore, financial statement auditors have the advantage of efficiently performing sustainability assurance.

Endo : You are also responsible for the development of sustainability assurance talent. What programs are in place?

Ishibashi : This summer, we conducted mandatory basic training for all employees of audit operating OUs to gain sustainability literacy. This training was attended by 1,878 people. Additionally, a more specialised curriculum is provided to members engaged in sustainability assurance services. I think these programs will help develop people that can provide high-quality sustainability assurance services.

Endo : What is your thought on the development of sustainability assurance professionals?

Ishibashi : Financial statement audits and sustainability assurance are highly compatible in terms of the understanding of companies' business and internal controls, the nature of the procedures and approaches. Therefore, I think it is efficient to develop accounting professionals as sustainability assurance professionals, and that the hurdle is low. But there is knowledge and expertise specific to sustainability. The challenge of the entire industry is how to encourage people to develop such knowledge as early as possible and to retain talented sustainability assurance professionals.



Our sustainability related services

■ = Assurance/Assurance-related services

▲ = Advisory services

