InfluenceMap

# Corporate Climate Policy Engagement and the SSBJ Climate Exposure Draft

July 2024

## Relevance to SSBJ criteria

This public comment is presented by InfluenceMap Japan Representative Office to the Sustainability Standard Board of Japan (SSBJ) in response to the Theme-based Sustainability Disclosure Standards Exposure Draft No.2 "Climate-related Disclosures (*Exposure Draft*)," released for comment in March 2024 with a comment period ending July 31, 2024.

Per SSBJ's *notice* requesting to indicate relevant categories, this submission refers to the following (the questions are machine translated from SSBJ's notice in Japanese):

- Per page 2, bullet three, this submission can be classified as a: *"(1) Comment intended to be applied to companies (all or a portion of companies listed on the Prime Market of the Tokyo Stock Exchange) that focus on constructive dialogue with global investors" and "(2) Comment intended to be applied voluntarily by companies other than (1) above (e.g. non-Prime Listed companies)"*

- This comment is a response to Q11 on page 19: *"Please state if you have any other comments regarding this Exposure Draft. If you have comments on the provisions of this Exposure Draft, please clearly state whether you are commenting on the proposed Applicable Criteria, the proposed General Criteria, or the prosed Climate Criteria, and which section number you are commenting on."*

    - InfluenceMap indicates that our response is applicable to: *Climate Standard Plan Section Page7, 3. Disclosure of Core Contents, i) Governance and ii) Strategy.*

- This is also applicable to Q7 on page 15: *"Do you agree with the proposal for cross-industry indicators, etc. (climate-related risks and opportunities)?"*

## About InfluenceMap

InfluenceMap is a global think tank providing open-source data on corporate performance on climate change to investors and other stakeholders. InfluenceMap's "LobbyMap" platform is the world's only database assessing corporate climate policy engagement, now covering over 500 companies and 250 industry associations globally.

LobbyMap analysis is used to inform the global institutional investor community on how entities are impacting climate change. InfluenceMap is part of the Technical Advisory Group for the Climate Action 100+ (CA100+) an investor-led initiative made up of 700 global investors, including many Japanese financial institutions, who are responsible for more than $68 trillion in assets under management across 33 markets. InfluenceMap's analysis has been featured in over 4,000 media articles, particularly in the financial and business press.

## Introduction

Corporate policy engagement has been identified by the investment community as a major risk to company-level and system risk management on climate change. Corporate policy engagement can be associated with words including "lobbying", "advocacy" and "political activity". InfluenceMap uses the 2013 UN *Guide for Responsible Corporate Engagement in Climate Policy* which defines activities that classify as corporate climate engagement, including direct contact with regulators, social media communications, and public relations.

Despite multi-year efforts to increase disclosure of corporate policy engagement through transparency instruments and investor-led voluntary disclosure initiatives, information disclosed by the corporate sector on climate policy influencing activities remains incomplete and, at times, misleading. The following response aims to provide the SSBJ with an evidentiary base to understand why a comprehensive picture of corporate climate policy engagement is material to investors and should be included in final guidance.

This submission follows similar recommendations submitted by InfluenceMap to the *United States SEC*, *ISSB*, *EFRAG's Sustainability Reporting Standards* and the *Australian Treasury*.

## Key Recommendations

InfluenceMap proposes that companies under SSBJ's Sustainability Disclosure Standard should report on the following core areas. The following requirements follow the logic and structure of IFRS S2 Climate-Related Disclosures but reference the indicators set out in the *Global Standard on Responsible Climate Lobbying*, an initiative launched by global investors and investor initiatives like PRI and AIGCC with the aim to drive a step-change in the commitment of investors and companies to responsible climate lobbying.

InfluenceMap proposes that the following considerations should be incorporated into the SSBJ's Sustainably Disclosure standard as minimum, mandatory standards.

- **The governance body(s)** (which can include a board, committee or equivalent body charged with governance) that are responsible for oversight of the company's climate policy engagement activities.
- **The governance processes** in place to monitor, manage and oversee climate policy engagement activities. This should include an account of how the company has sought to monitor, review and ensure alignment between (i) the company's overall climate strategy and its climate policy engagement and (ii) the company's direct climate policy engagement and its indirect policy engagement conducted by third parties it funds and/or is a member of.
- **Climate policy risks/opportunities** that might impact the company's prospects. This should cover all existing or upcoming government climate-related policy interventions that might impact the company,

as well as details on the policy interventions the company requires from governments to deliver on its climate transition plan.

- **Policy engagement activity:** A full account of how the company has responded to or plans to respond to climate-related policy risks and opportunities through its policy engagement activities. This should cover all climate advocacy positions held by the company, and what policy engagement activity has been conducted on these positions, both directly by the company and by third parties it funds and/or is a member of, such as industry associations.

## Why Corporate Climate Policy Engagement is Material for Climate-related disclosures

The IFRS's S2 Climate-related Disclosures framework seeks information from market-participants on their climate-related risks and opportunities. The IFRS defines risks in two categories; physical risks and climate-related transition risks. The latter set of risks are further defined to include policy, legal, technological, market and reputational risks. Climate-related opportunities refer to any potential positive effects arising from an entity's efforts to mitigate and adapt to climate change.

A particular objective of the IFRS S2 "is to enable users of general-purpose financial reports to understand the governance processes, controls and procedures an entity uses to monitor, manage and oversee climate-related risks and opportunities". The standards cover the need for information on; the specific climate-related risks and opportunities reasonably expected to affect the entity's prospects; how the entity is responding or plans to respond to these risks and opportunities through its strategy and decision–making and; the governance/management processes and bodies responsible for exercising oversite over these risks/opportunities and the entity's response to them.

- Under the UN Framework Convention on Climate Change, member states party to the Paris Agreement are committed to pursue efforts to limit global temperature increase to 1.5C above industrial levels through implementing economy-wider emission reductions plans. The UN's climate science body, the Intergovernmental Panel on Climate Change (IPPC), has been clear that robust policy intervention is central for delivering the Paris Agreement's temperature goals, explaining that "Achieving the global transition [...] requires purposeful and increasingly coordinated planning and decisions at many scales of governance including local, sub-national, national and global levels" and that the needed "transformation to different systems will hinge on conscious policy to change the direction in which energy, land use, agriculture and other key sectors develop." (IPCC, AR6, WGIII, 2022)

- It is therefore likely that a wide range of entities will be expected to disclose on climate-related policy risk/opportunities under the IFRS Sustainability Disclosure Standards framework. The policy shifts accepted by governments as necessary for addressing climate change in line with international agreements will impact both companies from traditional/incumbent industries, as well as those seeking to operate in new/green markets that require supportive policy environments to develop. In fact, any company that has made a commitment or strategy to align their business with targets that correspond to international climate agreements (e.g. making a net-zero target) will likely be dependent on government policy change to deliver on that target.

- Advocacy or policy engagement is a key strategy through which market participants manage policy-related risk. Analysis from InfluenceMap of over 500 of the largest industrial companies in the world indicates that over 80% of these companies have some form of climate-related policy engagement, with over 60% undertaking regular and active climate policy engagement. Furthermore, over 95% retain memberships to industry associations that are actively engaging with climate-related policy on their behalf.

- Good disclosure under IFRS would appear to entail disclosure on climate policy engagement as a strategy for managing climate-related policy risks and opportunities. This view was outlined by ISSB board member Richard Barker in a *recent interview,* where he explained that "a good disclosure would necessarily incorporate" information on climate policy engagement as companies need to explain to investors how they plan to implement their climate targets, including what role they require governments to play and how the company plans to engage with governments to help create the required regulatory environment. The following two points provide examples on how information on climate-related policy engagement can be highly relevant to a company's prospects.

- For example, firms that successfully engaged US law makers in the design of the Inflation Reduction Act (IRA) have subsequently stood to benefit from significant financial support for their preferred technologies. The IRA has present policy opportunities to companies willing to invest in the US from a range of sectors include renewable energy, battery and energy storage, clean vehicles, metal and mining, biofuels, carbon capture, building. Conversely, industries in regions without comparable investment policy, have highlighted this a potential risk to their future business plans. In a separate example, companies that operate in the renewable and electric vehicle sectors have consistently raised concerns about the failures in infrastructure and planning policy presenting a blockage to the roll out of zero-emission power and transport systems.

- The automotive sector provides telling case studies as to how a deeper understanding of corporate climate policy engagement could have served to protect investors from material loss. In the Volkswagen emissions scandal beginning in 2015, often referred to as "Dieselgate," Volkswagen Group presented itself as a climate and sustainability leader while its actual policy engagement represented dramatically different behavior. A lack of understanding as to how the company (along with others in the sector) was managing regulatory risk shocked shareholders, caused Volkswagen's share prices to plummet, and resulted in an SEC lawsuit in *March 2019*. In this case, Volkswagen chose to defraud

NOx-related rules to comply with increasingly stringent and climate-motivated Corporate Average Fuel Economy standards in the US.

## Materiality to investors

Accurate information on corporate climate policy engagement is in demand by investors for a variety of reasons and use-cases. InfluenceMap's public facing analysis and scoring of companies on climate policy engagement and its robust uptake by the global investment community suggests corporate policy engagement can be quantified and effectively used by investors. The bullets below provide examples of situations where information on corporate policy engagement is already in use by investors:

- Company risk assessment and portfolio management: The Volkswagen case illustrates the value of understanding accurate policy engagement behavior as a proxy for true management thinking on how the company is approaching risks/opportunities relating to climate change. This is especially true in sectors primarily or heavily driven by regulations such as the Global Industry Classification Standard top level sectors Utilities, Energy, and Materials. For example, the San Francisco Employees' Retirement System (SFERS) utilizes InfluenceMap's metrics to *assess and manage* its oil & gas holdings, and Legal & General Investment Management *incorporates the metrics* in its Climate Impact Pledge scoring.

- Managing systemic risk: Many large, diversified investors (such as pension funds) regard negative policy engagement as a systemic portfolio risk, given that it can lead to delays to policies deemed necessary by governments to reduce the impacts of climate change. This view has been articulated, for example, by a *group of investors* including Sweden's AP7, BNP Paribas Asset Management and the Church of England's Pension Board. AP7 notes: "The importance of climate lobbying has become firmly established as a new norm on the sustainability agenda, but there is still much to do before negative climate lobbying is brought to an end." The fund has blacklisted ExxonMobil, among others, based on climate policy engagement criteria.

- The engagement process: Engagement with companies on their climate policy engagement is a strategic element within the framework of the *Climate Action 100+* (CA100+) investor process, which comprises 700 investors with a total of over $68 trillion in signatory assets under management. Several investor-representative groups (e.g. *PRI*, *IIGCC*, and *CERES*) have formalized sets of expectations regarding how companies should manage their climate policy engagement processes. These expectations require companies to align their policy engagement with Paris targets and ensure good governance, including full disclosure of the entire policy engagement process. In its *Investment Stewardship* on corporate political activities in February 2022, the world's largest asset manager BlackRock highlighted that corporate political activities can “create material risks for companies, including certain reputational risks as well as other risks that can arise from the complex legal, regulatory, and compliance considerations associated with corporate direct or indirect (through trade associations) political spending and lobbying activities".

- The shareholder resolution process: The issue of policy engagement by companies, and the lack of transparency in this area, has driven an increasing number of shareholder resolutions. 38 shareholder resolutions were *filed* on policy engagement in the US, with 17 specifically on Paris-aligned policy engagement. Many of these were withdrawn before the AGMs due to a commitment from the company. Additionally, there were two shareholder resolutions on climate-related policy engagement or advocacy filed in Japan at Toyota and Nippon Steel in June 2024. So far this year, 13 resolutions have been filed in globally on Paris- or net zero-aligned policy engagement.

## Existing Disclosure Frameworks and Practices are Inadequate

In order to fully assess how climate-related risks affect an entity's financial position and performance, strategy and business model, and enterprise value, users of general-purpose financial information require comprehensive, timely, and directly comparable information provided on a company-by-company basis. However, existing disclosure frameworks do not fulfill investor needs, providing incomplete and sporadic information across a multitude of platforms.

Existing efforts seek to bridge these gaps and collate the available information in a format that can be used by the investment community. For example, InfluenceMap does this for over 500 of the world's largest companies, supplementing disclosed policy engagement with an independent assessment of all other publicly available evidence of policy engagement. This independent analysis plays a crucial role in verifying direct company disclosures which have been found to be incomplete and often misleading. However, this effort is fundamentally limited by the scope and efficacy of lobbying disclosure regulations in different geographies.

- The *OECD's Lobbying In the 21st Century report* (2021) highlighted the extent of investor attention on climate policy engagement, and found that "This higher level of scrutiny needs to be accompanied by better standards and accountability mechanisms to ensure that lobbying activities do not conflict with companies' broader societal engagements. While numerous benchmarks are used to measure companies, if applied inconsistently, they can prevent forming a coherent and comprehensive approach, leaving too many companies with too many risks and uncertainties".
- According to the OECD, only a *minority of countries* have addressed lobbying risks in their governance arrangements. 23 of the 41 countries analyzed in its 2021 report *Lobbying In the 21st Century* provided some level of transparency over lobbying activities. In Japan, in fact, none of the actors (i.e. companies and trade associations) are bound by transparency requirement in their lobbying activities (Figure 2.4).

- In areas that have addressed lobbying risks, complexity and exemptions render frameworks largely ineffectual. For example, in 2001, Japan implemented the Information Disclosure Law, which provides Japanese citizens with the legal right to access national government documents. However, in practice, obtaining information regarding corporate influence on the policymaking process remains challenging. Disclosures are frequently inconsistent and redacted, complicating efforts to achieve transparency on activities of specific companies. Furthermore, the transparency of Japanese ministerial committees is limited. For instance, the disclosure of advisory member lists, meeting minutes, and submission documents is often inconsistent and varies across the different administrative bodies responsible for committee hearings.

- An investor seeking to build a complete company-level picture of influencing activities using these disclosure mechanisms would need to learn and then navigate numerous rules and disclosure routes, which could discourage investors from seeking this information and getting a full picture of entity policy engagement activity.

## Emerging initiatives to mandate policy engagement disclosure

In response to the demand for this information and the limitations of voluntary disclosures, regulatory initiatives are emerging to mandate policy engagement disclosure at company level.

- The 2022 *UK Transition Plan Taskforce Disclosure Framework* and *Implementation Guideline*, which sets out recommendations for key components of a transition plan, includes two sub-elements referring to policy engagement: one in relation to a company's indirect policy engagement through trade associations ("Engagement with industry", sub-element 3.2) and one in relation to the company's direct policy engagement to public officials ("Engagement with government, public sector and civil society", sub-element 3.3). These recommendations include disclosure requirements around trade association memberships, as well as disclosure on the company's current and planned engagement activities (both directly and through its trade associations) and how these are aligned with the company's strategies and objectives as set out in the transition plan (UK TPT Disclosure Framework, 2022).

- The draft *European Sustainability Reporting Standards* (ESRS), which has been prepared by the European Financial Reporting Advisory Group (EFRAG) and published in 2022, will inform mandatory sustainability disclosure requirements at the EU level. It includes a disclosure requirement under the Governance standard referring to "Political influence and lobbying activities", asking for disclosure on policy engagement activities, main topics and positions being advocated on.

Other influential global standard setting bodies and initiatives are also including corporate climate policy engagement as a material component of a company's climate-related risk and opportunity management and governance.

- The UN High-Level Expert Group on the Net-Zero Emissions Commitments of Non-State Entities published a *report* at COP27, focusing on policy engagement in one of its 10 recommendations. It states "Non-state actors cannot lobby to undermine ambitious government climate policies either directly or through trade associations or other bodies. Instead, they must align their advocacy, as well as their governance and business strategies with their climate commitments." The report also proposed setting up a Taskforce for Net-Zero Regulation to coordinate global initiatives regulating companies on net zero commitments

- The draft *Global Reporting Initiative (GRI) topic standard for climate change* includes a management disclosure on transition plans for climate change mitigation, specifically including how "public policy activities, including lobbying activities, are consistent with the [organization's] transition plan." The International Organization for Standardization (ISO) announced in June 2024 that it had begun work to develop its first international standard on net zero, set to launch at COP30 in November 2025. This is expected to build on the IWA 42:2022 Net Zero guidelines, which has a number of references to policy engagement, including: "The leadership of all organizations should ensure alignment between policies and actions, including public policy and advocacy."

## Conclusion

In conclusion, mandatory disclosure on corporate climate-related policy engagement likely falls within the SSBJ's mandate to deliver guidelines with the purpose of enabling standardized and actionable climate-related disclosures in Japan. Company transparency on climate-related policy engagement enables investors to manage risk, engage with companies, and make decisions about capital allocation. As demonstrated by global initiatives and a strong investor push to streamline disclosures on policy engagement in line with climate goals and objectives, policy engagement disclosure is a key consideration that should inform the design of this new regulatory framework.

As set out in the introduction, InfluenceMap proposes that companies under Japan's sustainability-related financial disclosure should report on the following core areas as minimum standards:

- **The governance body(s)** (which can include a board, committee or equivalent body charged with governance) that are responsible for oversight of the company's climate policy engagement activities.

- **The governance processes** in place to monitor, manage and oversee climate policy engagement activities. This should include an account of how the company has sought to monitor, review and ensure alignment between (i) the company's overall climate strategy and its climate policy engagement and (ii) the company's direct climate policy engagement and its indirect policy engagement conducted by third parties it funds and/or is a member of.

- **Climate policy risks/opportunities** that might impact the company's prospects. This should cover all existing or upcoming government climate-related policy interventions that might impact the company, as well as details on the policy interventions the company requires from governments to deliver on its climate transition plan.
- **Policy engagement activity:** A full account of how the company has responded to or plans to respond to climate-related policy risks and opportunities through its policy engagement activities. This should cover all climate advocacy positions held by the company, and what policy engagement activity has been conducted on these positions, both directly by the company and by third parties it funds and/or is a member of, such as industry associations.