



Corporate and sustainability reporting trends in Japan



Introduction

This report examines the non-financial reporting landscape of Japan, one of the largest economies in the world.

It uses data from two of World Business Council for Sustainable Development's (WBCSD's) Redefining Value projects: the Reporting Exchange and *Reporting matters*, and from PwC Japan's research on Tokyo Stock Price Index (TOPIX) 100 companies.

We also hear from the Japan Exchange Group (JPX) on how they see current and future developments in sustainability disclosure. We then dive into current reporting practices across WBCSD members in Japan and how they fare on a global scale. To provide a holistic view, we also discuss insights from PwC Japan on reporting trends among the TOPIX 100.

The purpose of this report is to highlight factors that have formed the current state of corporate reporting in Japan on environmental, social and governance (ESG) aspects, and the issues now driving it forward.

We hope this analysis and context will be helpful for all stakeholders who want a better understanding of corporate reporting in Japan, and support business efforts to improve decision-making and external disclosure.

Redefining Value is one of six major programs at the World Business Council for Sustainable Development (WBCSD).

Redefining Value helps companies measure and manage risk, gain competitive advantage and seize new opportunities by understanding ESG information.

We do this by building collaborations and developing tools, guidance, case studies, engagement and education opportunities to help companies incorporate ESG performance into mainstream business and finance systems.

Our goal is to improve decision-making and external disclosure, eventually transforming the financial system to reward the most sustainable companies.

Find out more about our work at <https://www.wbcd.org/Programs/Redefining-Value>

Japan's sustainability in context

The evolution of corporate reporting on ESG topics around the world is influenced by unique and varied political, economic, social and environmental factors. To understand the current state of corporate reporting in each country, it is useful to reflect on how specific factors and market developments have shaped action and regulation.

In the second half of the 20th century, Japan emerged from World War II to become the second largest economy in the world. Industrialization, education and training, integrated business structures, government investment and innovation were all key factors in the growth model, which came to be known as the Japanese Economic Miracle.

However, in the late 1980s and early 1990s, the real estate and stock market price bubble that had developed collapsed, resulting in an economic downturn that continued into the 2000s.¹ Today, over 25 years since the collapse and despite targeted efforts by different administrations, growth in Japan remains low among other major markets.²

In recent years, under the administration of Shinzo Abe, a new approach has been taken to revive the economy and investment in Japan. This plan to boost the economy and achieve sustainable, long-term growth is based on "three arrows:" easing monetary policy towards the ambition of 2% inflation; fiscal stimulus; and structural and governance reform of the private sector.³ A key component of the third "arrow" was a review of business and investor relations in Japan, led by Kunio Ito, a professor at Hitotsubashi University. At the core of his review was the aim to understand Japan's paradox: how can one of the world's most innovative countries also be continuously low-profit, relative to other countries around the world?

Published in August 2014, the Ito Review focused on the need to improve communication between companies and investors in the hope of aligning and improving their expectations of one another. The Review sees great benefit in investors taking a more active role and shifting their focus from short-term results towards the mid and long-term goals.⁴ For companies, the Ito Review suggests they should ensure there is no "double standard" between the business operations, targets and strategy they disclose, and that which they practice. To achieve it, the Review suggests regulators should improve disclosure requirements towards consistency, comparability and long-term value creation as well as put into place a corporate governance code.

In line with the recommendations, recent years have seen the publication of Japan's Stewardship Code for institutional investors by the Financial Services Agency, the issuance of a Corporate Governance Code for the largest listed companies, and guidance published by the Ministry of Economy, Trade and Industry on integrated corporate disclosure and collaborative value creation.^{5,6,7} Japan now has the second highest number of companies in the world using integrated reporting.⁸

In 2017, the Japan Exchange Group joined the Sustainable Stock Exchanges Initiative and it has established a sustainability committee and expressed support for the Task Force on Climate-related Financial Disclosures.^{9,10,11} In addition, the Government Pension Investment Fund (GPIF), the largest pool of retirement savings in the world, became a signatory of the PRI in 2015 and it continues to increase its use of ESG metrics in its investment decisions.¹² From 2016 to 2017, socially responsible investment in Japan is thought to have increased by more than 143% to ¥136.6 trillion.¹³

These actions to refocus the market towards sustainable, long-term growth and increase transparency and accountability aim to improve Japan's economy and restore confidence in it, both domestically and internationally.

Japan is unparalleled in its levels of household savings – estimated at JP¥ 800 trillion¹⁴ – which, if invested, could substantially bolster the country's investment chain. Unlocking this capital and using it to support sustainable value creation is especially important given the demographic challenges that Japan faces. Greater growth in business and investments will ensure Japan can fund more retirees with a smaller number of workers among its aging population.¹⁵ Japanese regulators, companies and investors are aspiring to embrace sustainability as means of achieving the economic growth that the country requires.

From 2016 to 2017, socially responsible investment in Japan increased by more than 143% to ¥136.6 trillion

The reporting landscape in Japan

Research from the Reporting Exchange shows that there are 28 reporting provisions* in Japan that consider ESG issues. Over 50% (15) of these provisions are reporting requirements, with reporting (6) and management (7) resources making up the remainder of provisions.

The reporting landscape in Japan is primarily focused on environmental issues and over 70% (20) of the provisions focus solely or in part on these issues. The top five reporting subjects are environmental with emissions and pollution, climate change, and resources the most highly prioritized topics. In contrast, only 32% (9) of provisions consider governance topics and 25% (7) cover social issues.

All 15 reporting requirements are mandatory for companies that fit the specified criteria (e.g. size, industry, ownership structure). Of these, 12 request disclosure through specialist systems that direct corporate disclosures to the national regulators for monitoring and compliance purposes. 11 of these require companies to submit environmental data to government ministries. These reporting requirements have been issued to ensure the protection of land, water and air from pollution, promote energy and resource efficiency, and tackle climate change. The final reporting requirement for specialist systems relates to proper monitoring of employee health and safety.

There are three reporting requirements which mandate companies to include disclosures in their annual reports. All are concerned with financial and governance issues.

For instance, the Financial Instruments and Exchange Act requires listed companies in Japan to report information about their corporate governance systems. The Japan Exchange Group has produced a Corporate Governance Code that sets out recommended practice around issues of leadership, accountability, remuneration and shareholder relations. The governance focus of these mainstream reporting requirements means there is no regulatory mandate for companies to disclose thorough, consistent and comparable information on social and environmental sustainability issues through their mainstream reporting channels.

The reporting and management resources, which cover a wide range of ESG issues, have been developed by various national regulators and business associations to encourage more sustainable corporate practices and improve the quality of non-financial reporting. The Guidebook for Corporate Health and Productivity Management provides advice and suggestions on healthy lifestyles emphasizing the benefits for employee output. In addition, the Ministry of Economy, Trade and Industry's Guidance for Integrated Corporate Disclosure and Company-Investor Dialogue for Collaborative Value Creation seeks to create a common language for long-term growth between companies and investors and provides advice to help companies understand and report on their value creation in a holistic way.

* Key definitions can be found on page 8.

How does Japan stack up?

To understand how Japan aligns with the global corporate ESG reporting landscape, we compared it with 64 other countries included on the Reporting Exchange (December 2018).

We repeated this analysis with the top ten countries by gross domestic product (USA (1), China (2), Germany (4), UK (5), India (6), France (7), Italy (8), Brazil (9), Canada (10)).

From this comparative analysis, we draw five key findings.

Japan	Rest of the world	Major economies
Emissions/pollution	Accountability	Product and service responsibility
Climate change	Emissions/pollution	Accountability
Resources	Employment conditions, policies and practices	Climate change
Energy	Waste	Emissions/pollution
Waste	Product and service responsibility	Employment conditions, policies and practices
Accountability	Water	Waste

● Environmental ● Social ● Governance

Key finding 1: Strong focus on environmental issues

There is a strong focus on disclosure of corporate performance on environmental issues. Environmental topics are covered by 71% of reporting provisions in Japan, compared to 62% for the rest of the world and 65% for major economies. They account for five of the top six subjects identified in Japan, in comparison to three of the top six for the other two groupings.

Key finding 2: Disclosure on social issues less prominent

Our research found that only 25% of reporting provisions in Japan request disclosure or support disclosure of corporate performance on social topics. This is significantly lower than the global average (47%) and other major global economies (50%). Social issues are absent from the most common reporting subjects in Japan while, for the rest of the world and the top economies, **employment conditions, policies and practices**, and **product and service responsibility** make up two of the top subjects.

Key finding 3: Alignment on certain topics

There is alignment between certain reporting topics in Japan, the rest of the world and our major economies sample. **Emissions and pollution** and **waste** are key topics in corporate reporting and sustainability across all three samples. Corporate **accountability**, which encompasses financial and business reporting, risk management and internal control and audit, is also a priority across jurisdictions.

Key finding 4: Less regulatory focus on disclosure through mainstream reporting channels

When compared to other major economies, there is less focus on bringing corporate disclosure on the ESG performance into mainstream and annual reporting processes. Our research suggests that, in the other major economies, 33% of ESG reporting provisions direct disclosure through the mainstream reporting channel. This compares to just 21% in Japan. However, the approach in Japan aligns with the average across the rest of the world sample (20%). We also see in the upcoming chapters that stakeholder demand for integrated ESG information is driving disclosure towards mainstream reports in Japan, and this is expected to keep growing.

Key finding 5: Fewer voluntary sustainability reporting provisions

Our research found that the reporting landscape in Japan includes less voluntary disclosure of ESG performance by companies. 25% of reporting provisions are voluntary, when compared to 42% in the rest of the world and 45% across major economies. Disclosure in Japan is more likely to be as a result of mandatory, compliance-based disclosure with 61% of provisions being legal requirements. This compares with the rest of the world (55%) and major economies (44%).

These findings paint a picture of how Japan aligns with, and where it diverges from, reporting practices around the world and among other major economies.

A key conclusion is that social issues may benefit from greater focus from regulators and reporters in Japan. Another key area of difference is the prominence of mainstream reporting. There is less of a regulatory mandate in Japan, compared with other major economies, for companies to disclose sustainability information in their annual reports which could lead to mainstream ESG disclosures not being as consistent, comparable and comprehensive as investors around the world desire. Further voluntary reporting requirements may assist Japanese companies in developing their practices and strengthening disclosure systems to ensure mainstream reporting of ESG issues is relevant and decision-useful for business itself and stakeholders such as investors.

The Reporting Exchange

The Reporting Exchange, built in partnership with Climate Disclosure Standards Board (CDSB) and Ecodesk, is a free, online resource that brings corporate sustainability reporting requirements and resources from over 65 countries and 70 sectors together under a single platform for easy access. It is currently the most comprehensive source of information on sustainability reporting requirements, resources and indicators available to help business and investors navigate the often-confusing world of corporate reporting.



Data snapshot

Figure 1: Provision type

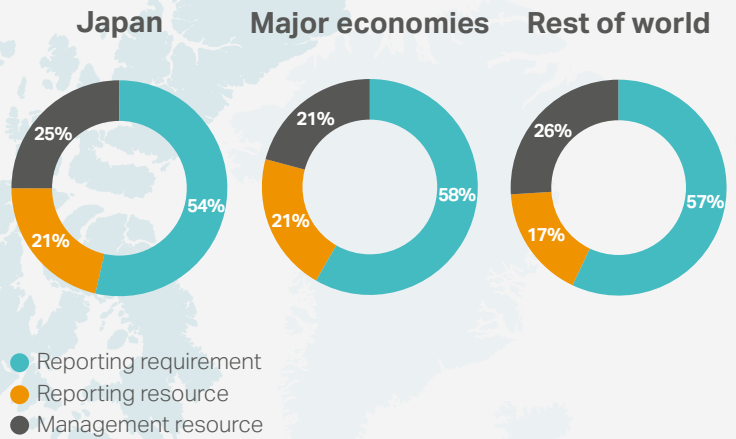
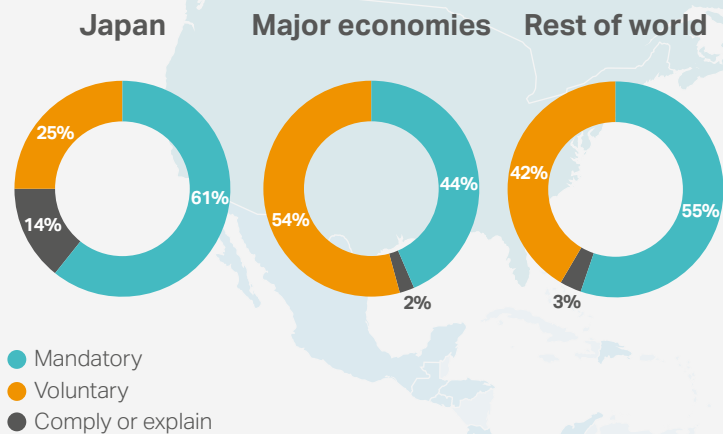


Figure 2: Reporting obligation



Definitions

Provision type

Reporting provisions can be grouped into three distinct categories, reporting requirement, reporting resource, management resource, each of which has different ambitions within corporate sustainability and reporting.

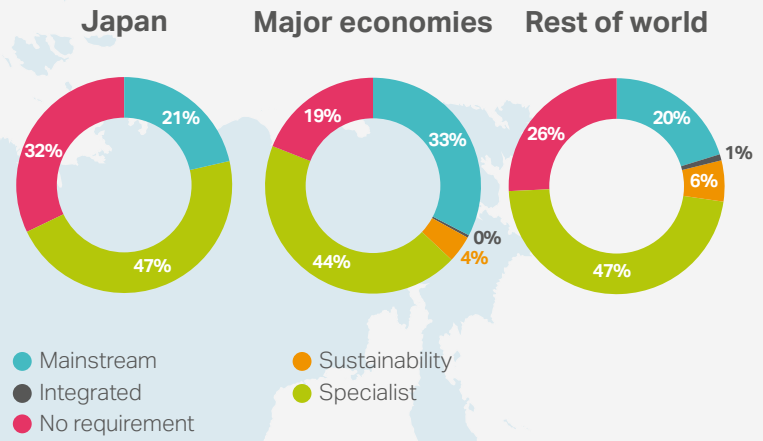
Reporting obligation

Reporting provisions may be mandatory or voluntary for companies to follow. In addition, provisions may follow a comply or explain obligation, which requires companies to disclose reasons for non-compliance.

Reporting channel

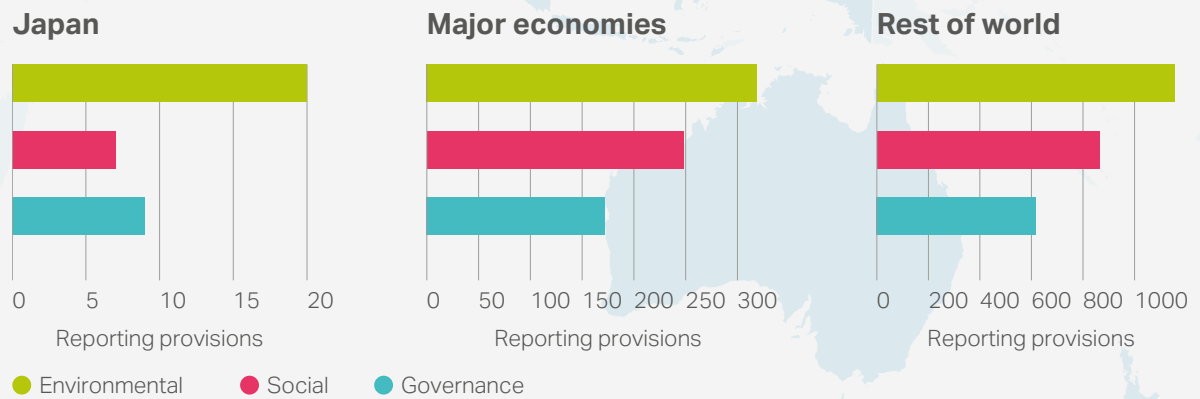
Reporting provisions request disclosure of sustainability information and data through different routes and towards different audiences.

Figure 3: Reporting channel



- Japan
- Top ten economies
- Rest of the world

Figure 4: ESG focus



Insight from PwC

Japan: Investors are the primary audience of ESG information



Japanese regulators, companies, and investors have been embracing sustainability by mainstreaming sustainability information in Japanese corporate reporting.

In this chapter, Aina Fukuda and Richard Barker from Sustainability Services, PricewaterhouseCoopers Aarata, provide insights on the reporting landscape in Japan drawing on two studies PwC conducted in 2018: *2018 Reporting Tips*** survey of sustainability reporting in Japan,¹⁶ and the [SDG Reporting Challenge 2018](#), a global survey of SDG reporting.^{***17}

Although a lot of sustainability reporting is still dedicated to describing corporate social responsibility initiatives, companies are disclosing more ESG data, increasingly in the annual report alongside annual financial disclosures.

Companies are also starting to report on how their sustainability activities relate to the Sustainable Development Goals (SDGs) and, in some cases, are using the SDGs to frame sustainability aspects of their core business strategy.^{****}

We can see the impact of growing investor interest in sustainability information in Japan when we look at who Japanese reporters see as the primary audience of their non-financial disclosures.

In a survey of reporting practitioners from 102 of the biggest listed Japanese companies, over 80% responded that investors were the primary consumers of their non-financial information (closely followed by shareholders, at just under 80%).

The next highest group was sustainability rating agencies at just under 70% - highlighting the importance of the Government Pension Investment Fund (GPIF)'s decision to invest in ESG indices, whose constituents are selected using sustainability ratings.

** 2018 Reporting Tips - We analysed the quality of the sustainability reporting of each TOPIX 100 constituent company, using an internally developed framework that looks at elements that we believe should be a part of any good sustainability reporting, such as strategy, materiality, and KPIs & targets.

*** SDG Reporting Challenge 2018 - A global study to analyse the quality of reporting against the SDGs globally. The study covered 729 companies in 21 countries, of which 40 companies were Japanese.

**** PwC's study of the SDG reporting of the 42 biggest Japanese companies by market cap showed 84% mentioning the SDGs in their corporate reporting, and 50% referencing the SDGs when describing their main business strategy.

When asked which reader groups had increased in importance in the past three years, the highest again was among investors, followed by sustainability ratings agencies.

Indeed, if we look at report content, we see that Japanese companies are making a concerted effort to disclose the ESG information required to be selected on the GPIF's chosen ESG indices. This information is being disclosed alongside financial information aimed at investors. Over three quarters (76%) of the TOPIX 100 now either produce an integrated report or include sustainability information in their annual report. This is a striking comparison with the fact that, in the past five years, we have seen no growth in the proportion of TOPIX 100 companies producing standalone sustainability reports (67% in 2014 vs. 67% in 2018). In other words, the recent growth of sustainability information disclosed in Japan has been largely concentrated in the mainstream avenues of financial, investor-aimed disclosures.

The challenge now for Japanese companies lies in explaining how or what they disclose is material to the business.

While the Global Reporting Initiative (G4/GRI Standards) is the most referenced sustainability reporting tool among the TOPIX 100, and 91% of TOPIX 100 companies identify material or priority issues, only 47% coordinate the content of their reporting with the material issues they identify.

Furthermore, only around one third (36%) explain how the material issues they identify are relevant to the business. The transparent disclosure requirements of the GPIF's selected ESG indices present reporters with a clear list of information to disclose, and it would seem this has led to many companies taking box-ticking approach (i.e. purely focusing on disclosing the information needed to get them on the indices), at the expense of analyzing materiality or reporting on strategy.

Indeed, although 83% of TOPIX 100 companies describe an overarching sustainability strategy or program in their disclosures, only 34% identify quantitative KPIs that correspond to their sustainability strategy.

Thus, Japanese reporters have recognized that non-financial information is a growing element of investment decisions, and we are seeing more sustainability information being disclosed, increasingly alongside mainstream financial information as a result.

Going forward, we expect to see Japanese sustainability reporters focus on investor demand for sustainability information to frame their disclosures. As investor interest in sustainability information matures, and Japanese companies allocate more resources to sustainability reporting, the challenge will be for reporters to meet external data requirements while also identifying the sustainability information that is key to conveying the company's strategy and priorities.

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Q&A with the Japan Exchange Group



We spoke to the Japan Exchange Group (JPX) to understand more on ESG disclosure, investors' role and the key challenges around ESG reporting to achieve sustainable capital markets.

Q. What role does JPX have in promoting sustainable and long-term growth in Japan?

As a stock exchange, JPX promotes sustainability in the market in two key ways: by providing ESG products to investors and through supporting listed companies to focus on their long-term, sustainable growth.

JPX offers ESG-related indices such as S&P/JPX Carbon Efficient Index, ETFs, and an infrastructure fund market. Our Green and Social Bonds Platform enables issuers of TOKYO PRO-BOND Market listed bonds to voluntarily disclose information on such bonds to the market.

In 2015, JPX formulated Japan's Corporate Governance Code to support listed companies and we recently updated it to encourage companies to voluntarily disclose ESG information and promote sustainable corporate growth and increased corporate value over the mid- to long-term. We also select listed companies in recognition of outstanding efforts in promoting women's empowerment and employee health and productivity. To promote such initiatives group-wide, we established our own Sustainability Committee which reports directly to the Group CEO in July 2018.

Sitting in a unique position between investors and listed companies, JPX aims to bridge the gap to promote constructive dialogue and transparency between investors and listed companies.

Q. What is the importance of ESG reporting in Japan? How do you see it developing in the coming years?

Both public and private sector organizations in Japan have started to focus more keenly on ESG information and they are beginning to work more closely together to promote ESG information disclosure in the market. To strengthen long-term corporate value creation and sustainable economic growth, companies need to understand their material ESG issues, and companies and investors also need to engage in dialogue based on disclosed information. We have seen various policy developments that aim to support these activities.

The Ministry of Economy, Trade and Industry (METI) published Guidance for Collaborative Value Creation to promote effective information disclosure and dialogue between companies and investors. In addition, the revised Corporate Governance Code encourages listed companies to voluntarily disclose ESG information.

The Japan Financial Service Agency (FSA) is also proposing a draft revision of Cabinet Office Ordinance on the Disclosure of Corporate Affairs, etc. to enhance non-financial information disclosure such as on management's discussion and analysis of financial conditions and results of operations (MD&A).

Companies in Japan are reacting positively to such developments. Those publishing an integrated report have increased and more companies are delivering ESG briefings for their investors. Another encouraging sign is the growing number of TCFD supporters in Japan. At the end of 2018, more than 40 institutions, including the Financial Services Agency (FSA), the Ministry of Environment, METI and JPX, had expressed their support for the TCFD recommendations. JPX expects this trend to continue and we will support companies in voluntarily disclosing investment-useful ESG information.

Q. How important are investors, such as the Government Pension Investment Fund (GPIF), to promoting corporate ESG disclosure and sustainable business models?

The policies and attitudes of investors impact significantly on companies' attitudes towards ESG issues and information disclosure, including through engagement and benchmarking.

Asset owners in particular have a big impact on companies' behaviors from upstream of the investment chain. GPIF is the world's largest pension fund with assets under management of 156 trillion JPY. It believes it is vital to minimize negative externalities by integrating ESG factors in the investment process, ensuring investment returns across its portfolios over the long term. GPIF has selected ESG indices and started

investment tracking those indices, and action which makes asset managers seriously consider ESG issues in their investment processes and encourages engagement with investee companies.

As of November 2018, some 237 institutions had adopted the Stewardship Code and the number of Principles for Responsible Investment (PRI) signatories in Japan reached 67 (December 2018). According to GPIF's Report on institutional investors' stewardship activities, investors and companies have started to initiate dialogue with a longer-term viewpoint.

Q. What encouraged JPX to join the Sustainable Stock Exchange Initiative? How does JPX see their reporting requirements developing in response?

ESG investment has grown in importance in Japan, as in many other countries. With the growing interest in the Sustainable Development Goals (SDGs), ESG investment is drawing attention as an effective tool to address global challenges. Based on the rising interest in sustainability among the financial sector, JPX took steps to join the Sustainable Stock Exchanges initiative in December 2017.

We believe it is a great platform for promoting sustainability across stock exchanges and an opportunity to explore ways and means of building sustainable societies through collaboration among investors, listed companies and other capital market stakeholders.

JPX revised its Corporate Governance Code in June 2018 to encourage more companies to voluntarily disclose ESG information. As mentioned in our updated medium-term management plan, we will continue to develop a disclosure environment for non-financial information such as ESG.

Q. What are the key issues that need resolving around ESG reporting to achieve sustainable capital markets?

One of the key priorities for ESG reporting is the need for mutual understanding and agreement between investors and issuers on what ESG information is useful for assessing long-term corporate value. This may not be straightforward because investors can use different types of information to assess companies depending on their investment style and investee sectors. Many investors are still in the process of understanding what information is useful to inform their decision making.

Sitting in a unique position between investors and listed companies, JPX aims to bridge the gap to promote constructive dialogue and transparency between investors and listed companies. An example is our comprehensive analysis of corporate governance across listed companies, which informs a biennial White Paper on Corporate Governance. Another is our hosting events for investors and companies to promote mutual understanding of key ESG topics, such as business and human rights. Ultimately, our aim is that more issuers will voluntarily disclose investment-useful ESG information and more investors will use this information to inform and shape their investment processes.

Reporting matters: WBCSD member companies' reporting trends in Japan

The following analysis provides insight into reporting trends and practices for Japanese member companies. It is based on the 19 Japanese-headquartered companies and 140 companies with headquarters outside of Japan that were assessed as part of our 2018 *Reporting matters* review.

Report profiles

Nearly 80% of Japanese reports mention the Global Reporting Initiative (GRI) Guidelines or Standards. This is slightly behind the roughly 86% of reports from the rest of the *Reporting matters* population, but still demonstrates that GRI is a dominant consideration for sustainability reporting (Figure 5).

The vast majority (84%) of Japanese reports reviewed in the scope of our annual publication are stand-alone CSR or sustainability reports (Figure 6). Many of the Japanese companies (47%), however, produced an integrated or combined report in addition to their sustainability reports. This discrepancy occurs because we ask each member to identify the single, fullest source of sustainability information they would like our team to review as part of our annual project. Overall, we have seen a general trend towards more combined and integrated reporting across our member companies.

Japanese companies report on the SDGs at a comparable level to non-Japanese companies (Figure 7). The most prevalent SDGs highlighted by Japanese members include Goal 13 (Climate action), 8 (Decent work and economic growth), 9 (Industry, innovation and infrastructure), 12 (Responsible consumption and production) and 3 (Good health and well-being). This is largely in line with what we see on a global level.

Figure 5: State of GRI reporting by population

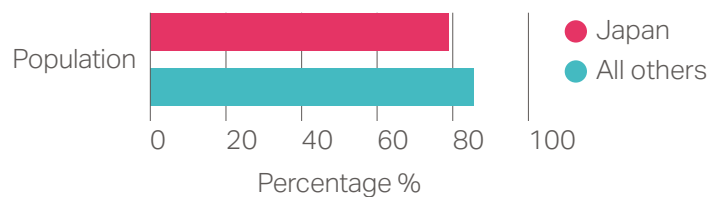


Figure 6: State of integrated reporting by population

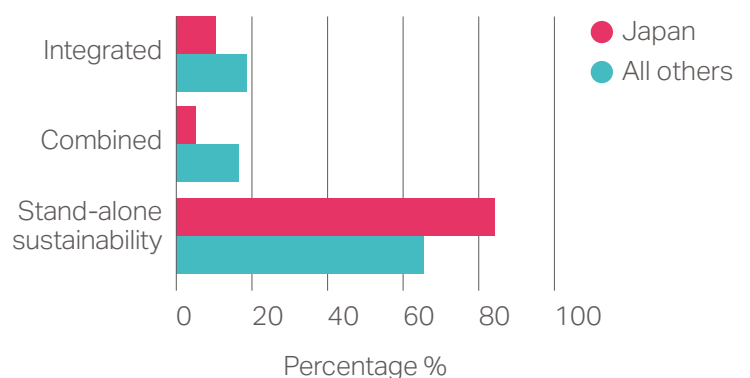
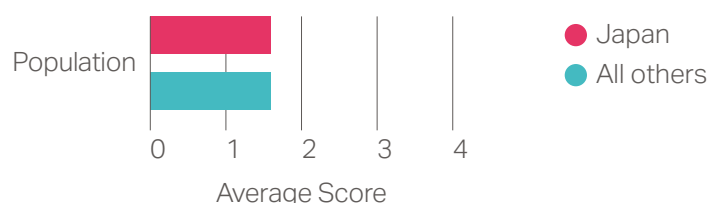


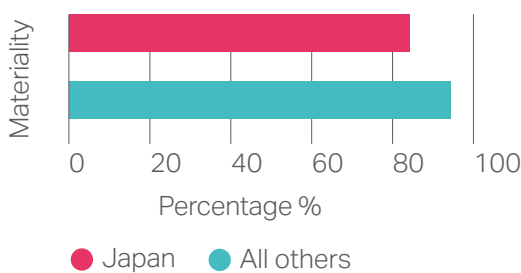
Figure 7: SDG indicator scores by population



Materiality and external assurance

Fewer Japanese reports provide evidence of a robust materiality assessment process compared to the rest of our population (84% vs. 94%, respectively) (Figure 8). This has an adverse effect on a variety of indicator scores, including **Materiality** and **Conciseness**, because it leaves analysts uncertain that the content they are reviewing is the most material for the company to report.

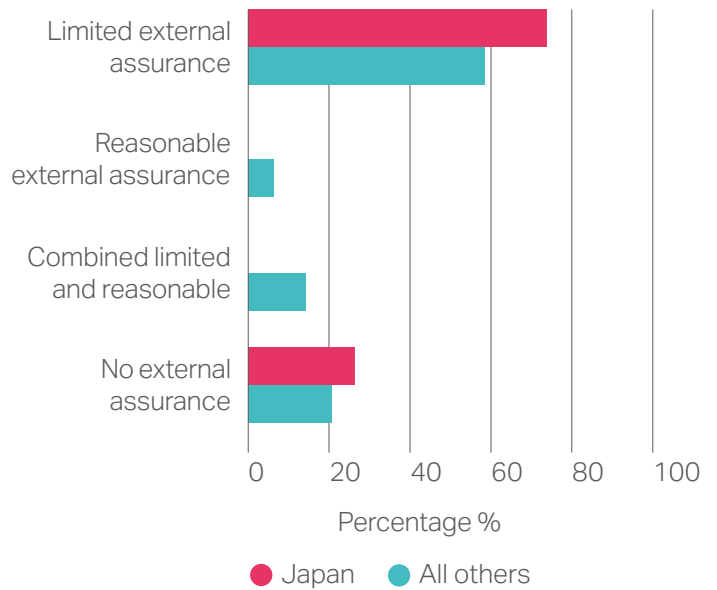
Figure 8: Use of materiality assessments by population



Japanese reports prioritize society, human rights and product responsibility topics more than any other issue. These issues are more common in Japanese reports than in other reports, while other sustainability issues such as biodiversity, resource use, waste and climate change are less prioritized by Japanese reports.

External assurance is obtained by 74% of WBCSD members headquartered in Japan (Figure 9). This is lower than the average across the rest of the WBCSD membership (79%). Those in our sample that do obtain external assurance only seek a limited level, while 21% of reporters in the rest of our population go further and obtain a reasonable or combined level of external assurance. This explains lower **External assurance** scores on average achieved by Japanese reports.

Figure 9: Use of external assurance by population



Reporting matters

Reporting matters was developed in partnership with Radley Yeldar to improve the effectiveness of sustainability reporting within the WBCSD membership. We do this by analyzing our member companies' primary source of sustainability information against a set of comprehensive indicators and produce an annual report that highlights reporting trends and features good practice examples. We offer all our member companies individual feedback sessions to give personalized feedback about how and where to do better – and where to keep up the good work.

To find out more about *Reporting matters* and our indicators visit: <https://www.wbcسد.org/Programs/Redefining-Value/External-Disclosure/Reporting-matters>

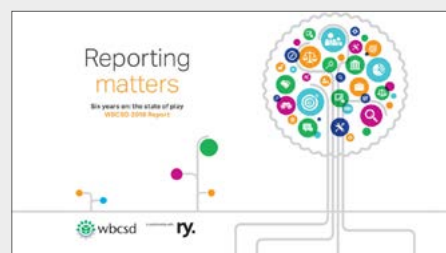
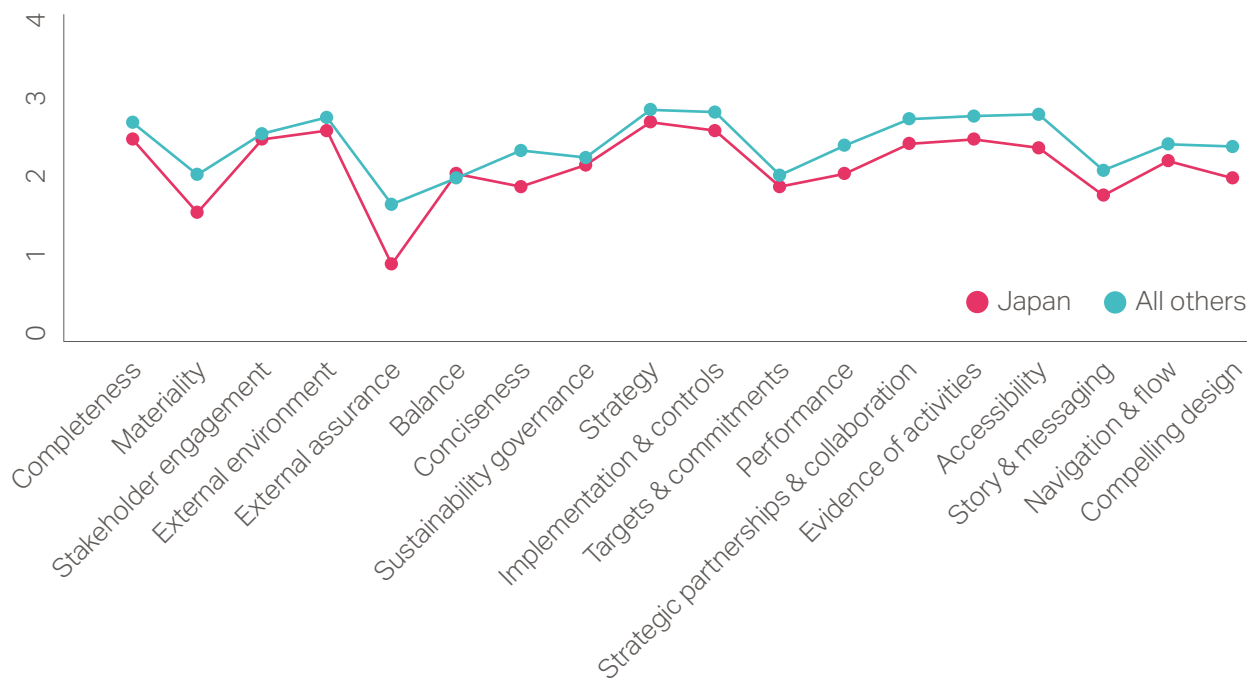


Figure 10: Indicator scores by population



Overall trends

Japanese companies slightly outperform all others in the **Balance** scores but they underperform in the other indicator categories relative to the wider population.

This is particularly noticeable in **Materiality**, **External assurance** and **Conciseness**, in part explained because underperformance in the **Materiality** indicator has a large effect on **Content** category scores. Disclosing details of the materiality assessment process and a clear list of outcomes, and aligning reporting content to these outcomes, is a clear area for improvement for our Japanese sample.

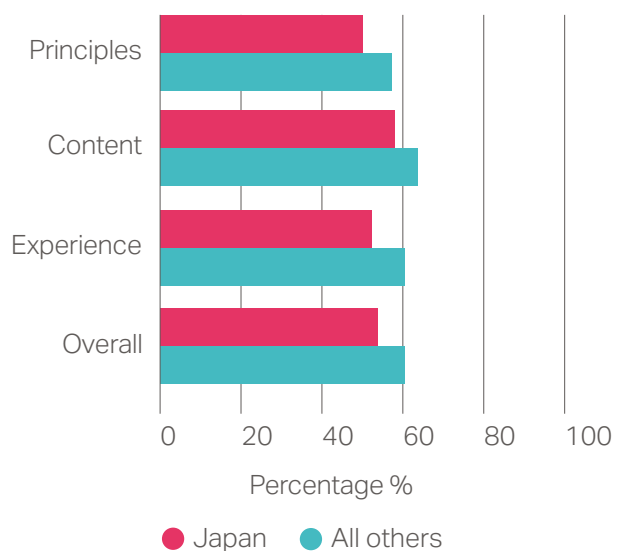
The difference is also pronounced in various **Experience** indicators such as **Accessibility** and **Compelling design** scores. We found that Japanese reports tend to be limited in format to PDF or static web content and they lack engaging design elements that bring the content of reports to life for a range of stakeholders. This might be attributable to the intended audience of Japanese reports.

Principles:
Overarching concepts that guide the application of the content criteria in the report

Content:
Elements that guide what is included as content in the report

Experiences:
Elements that improve the reader's overall experience of the report

Figure 11: Category scores by population



Top tips for better sustainability reporting

Understand the landscape

Do research to understand your external environment.

Find key reporting requirements and resources on the Reporting Exchange.

Figure out what's important

Conduct a materiality assessment that considers stakeholders.

Align strategy and report contents with material issues.

Get your house in order

Develop clear governance and management of Environmental, Social and Governance (ESG) issues.

Build strong processes for data collection and explore assurance.

Find your balance

Address areas of public concern or weak performance.

Include balanced external commentary on your business' performance.

Understand your audience

Identify your audience and make content relevant and engaging for them.

Look to the future

Set context-based targets that contribute to sustainable outcomes.

Conduct scenario analysis to help understand future developments.

WBCSD's top tips on improving sustainability reporting based on analysis of corporate disclosure and reporting trends since 2013. [Check out our video here.](#)

Conclusion

Sustainable long-term growth is critical for the Japanese economy to achieve internationally agreed targets such as those set out in the Paris Agreement and the SDGs. As we have seen in this report, there is clear evidence that actions by regulators, investors and companies are moving Japan in the right direction.

The move by GPIF to increase its use of ESG factors in investment decisions is a positive development. This market-led approach has encouraged companies to measure and report on ESG factors for investors and shareholders with the majority of the TOPIX 100 producing integrated reports or including sustainability information in their mainstream report.

That said, insights from both PwC and *Reporting matters* show that there is room for improvement among Japanese companies. Companies need to be clearer on the issues that are material to them. At present, disclosures often lack focus and conciseness with many companies approaching disclosure as a tick-box exercise. In addition, if more Japanese companies adopt external assurance at a reasonable level, it could increase confidence in the investment community that data is trustworthy and relevant to financial performance.

Finally, according to the Reporting Exchange research, there are only three reporting requirements that direct financial and governance information into the annual report, but no such requirement for environmental or social issues in Japan's largest companies.

While the market-led approach has promoted disclosure, Japan's capital markets may benefit from introducing more comprehensive, decision-useful and comparable ESG reporting requirements that consider the sustainability of business models, risks and opportunities, as well as materiality and performance. Such reporting requirements for Japan's largest companies would allow investors around the globe to more comprehensively understand how ESG issues are integrated into operations, decision-making and corporate strategy.

As we have seen in this report, there is clear evidence that actions by regulators, investors and companies are moving Japan in the right direction.

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Disclaimer

We recognize that the coverage of the Reporting Exchange, though comprehensive, is incomplete.

Our research has categorized reporting provisions from 65 countries listed on the Reporting Exchange that represent over 93% of global GDP but we acknowledge our geographical gaps, most notably in Africa and the Middle East. We also recognize our limited coverage in states where the problems of translation and accessibility are apparent, and that corporate reporting is a constantly evolving field.

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