



Survey of Integrated Reporting in Japan 2019

Integrated Reporting Center of Excellence
KPMG in Japan

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Message from global thought leaders

The corporate community in Japan is to be congratulated for its embrace of integrated reporting. I have written about this on my column on Forbes.com in the article “What The World Can Learn From The Japanese Experience In Integrated Reporting.” In 2010 there were only 24 Japanese companies issuing an integrated report. By 2018 this number had grown to 414, a compound annual growth rate of 43 percent. Of the 2,218 companies in the First Section of the Tokyo Stock Exchange, 382 issued integrated reports and they counted for 58 percent of total market capitalization of this group. While data on the number of companies practicing integrated reporting by country are incomplete, it is likely the no country has shown the same level of enthusiasm for integrated reporting as Japan. This is especially noteworthy since this is being done on a completely voluntary basis, although the Japan Stewardship Code and the Japan Corporate Governance Code have clearly played an important role.

Unfortunately, the quality of integrated reporting in Japan does not match its quantity. In collaboration with Michael P. Krzus and Carlos Solano I did an analysis of the quality of integrated reporting in 10 countries. On a scale of 0.0 to 3.0, Japan ranked third to last with a score of 1.38 (average was 1.82) with Brazil at 1.22 and the U.S. last at 0.78. Our analysis focused on what we consider to be the critical components for producing a high-quality integrated report.

This starts with materiality, the environmental, social, and governance (ESG) issues that are important to long-term value creation from both a risk and opportunity perspective. Japan ranked third on this component. Good guidance here is provided by the Sustainability Accounting Standards Board (SASB), for which I was the Founding Chairman. The importance of SASB’s work is evident from the 2019 letter, “A Fundamental Reshaping of Finance,” that Larry Fink, Chairman & CEO of BlackRock, wrote to CEOs. He stated, “BlackRock believes that the Sustainability Accounting Standards Board (SASB) provides a clear set of standards for reporting sustainability information across a wide range of issues.”

Japanese companies also need to recognize that the ESG issues that are material will change over time. Some that have been will no longer be and some that aren’t will become so. In “Dynamic Materiality and Core Materiality: A Primer For Companies and Investors,” I summarize the results of an important paper by Thomas Kuh, Andre Shepley, Greg Bala, and Michael Flowers of Truvalue Labs. They show how material topics change over time. Yet they also show that there are three that have been important for the past 10 years—GHG emissions, labor practices, and business ethics. Japanese companies should be reporting on all three of these, in addition to those that are material for their particular industry.

Determining the material issues of today and which might become so tomorrow is informed by strong stakeholder engagement in which the company seeks to understand the expectations of all of its stakeholders and how best to respond to them. The company then needs to engage in an open dialogue with its key stakeholders. Japan ranked third to last on this component.

Japanese businesses, like those in other capital markets, are facing a new decade with increasingly uncertainty created by climate change, geopolitical tensions and harsh business conditions. The value of a company today is largely made up of unaccounted intangibles. Just as the value of those intangibles can increase rapidly, it can be destroyed in seconds.

Investors want confidence that the companies are managing not only what’s on the balance sheet but all the resources and relationships that its business model depends on to create value.

At the WBCSD, we are working on projects to integrate non-financial information in business decision-making by improving governance and risk management and driving purpose-driven

Also important to determining materiality, and important in their own right, are the risks and opportunities the company sees to value creation over the short-, medium, and long-term, and the outlook the company has about the challenges and uncertainties it faces to its strategy, business model, and long-term performance. Again, Japan ranked third to last. Clearly Japanese companies need to improve here.

In terms of performance, the extent to which the company has achieved its strategic objectives and how well-placed it is to continue to do so in the future, Japan ranked last. Its score was 1.10 compared to second-to-last Brazil and U.S. tied at 1.45. This is a serious problem. How can a company that is performing well for its shareholders and other stakeholders get their support if it isn’t telling them how they are? Failure to do so will result in all stakeholders assuming that its performance is poorer than it really is. If performance is poor, the company needs to be candid about it so it can get input from its shareholders and other stakeholders about how to improve it.

The one component on which Japan had a fairly good ranking, sixth and just below average, was strategy and resource allocation—the company’s strategic objectives and how it is allocating its resources to achieve them. This is a strength that companies can build on.

The way to do so, and the foundation of integrated reporting, is for the board of directors to publish a “Statement of Purpose (The Statement).” As I wrote in “The Statement Of Purpose And What You Need To Do,” “The board of a company should publish an annual one-to-two page ‘Statement of Purpose’ that clearly articulates the company’s purpose to profitably achieve a solution for society. It specifies within that purpose the few stakeholders most critical to long-term value creation and sustainability. While many, if not most, companies have mission and vision statements, almost none of them are signed by the board of directors.” Hermes Equity Ownership Services has published a useful “Guidance Document” for boards of directors on what the content of “The Statement” should be.

The Statement then becomes the basis for a company’s strategy and allocation process and the time frames it uses to evaluate its impact on all stakeholders. The company then needs to publish an integrated report in which it explains its progress on accomplishing its purpose.

Just as Japanese companies have shown leadership on integrated reporting, they can now do so on the even newer idea of “The Statement.” This will improve their integrated reporting. It will also encourage companies all over the world to publish “The Statement” as well. Japan and the world will be a better place for this.

Robert G. Eccles

Visiting Professor of Management Practice
Saïd Business School
University of Oxford

disclosures to provide meaningful signals to the financial markets. It all starts with good data and controls which are the building blocks of good information which is needed to navigate the challenges ahead.

This is an important moment for Japanese businesses to lead the way by setting the standard for good reporting. The quality of integrating reporting needs to improve rapidly and provide meaningful insights to investors and other stakeholders. We look forward to the progress in Japan.

Mario Abela

Director, Redefining Value
World Business Council for Sustainable Development (WBCSD)

Introduction

We are very grateful to be able to provide this Survey of Integrated Reporting in Japan again this year. This is the sixth survey report since we began issuing it in 2014, and we are gratified that they have been received with great interest by many people both in and outside of Japan.

Many Japanese corporate leaders are anxious about the effect that disruptive innovation could have on existing businesses, and yet they are committed to making changes where they can. At the same time, many corporate leaders of leading global firms view these disruptions as opportunities for reform. They have been quick to put into practice a resilient management as they expeditiously devise and implement strategies, leading to real results.

In these highly uncertain times, in which the business environment can change dramatically in an instant, we believe that companies need to explain themselves in a way that demonstrates their resolve and determination, clearly conveying how they plan to overcome the challenges they face.

In March 2019, the Financial Services Agency released the Principles for the Disclosure of Narrative Information. The Principles aim to augment narrative information by including many of the elements normally required in integrated reports in the information provided in securities reports. This will encourage constructive dialogue between investors and companies.

Dialogue between people holding different values sometimes has the power to overcome difficulties. High-quality dialogue with investors gives companies insights and can provide hints that lead to breakthroughs on new fronts. This kind of high-quality dialogue can only happen if companies take a holistic view of their history, their current situation, and their vision for the future. This view allows them to tell a story that makes their path forward clear and credible.

Integrated thinking is essential for creating such a story. Companies need to consider the various types of value they provide, including profit and sustainability in business and contribution to society, in an integrated manner. Then, they should determine the vision and strategies that will maximize their performance, and describe this in their reports.

We are confident that integrated reporting helps companies translate the various issues they face into improvements in medium- and long-term value. KPMG Japan will continue to fulfill our purpose, “Inspire Confidence, Empower Change,” by supporting companies confront the apparent and the underlying issues.

I hope this report will be useful to all who are striving to survive these highly uncertain times.

Toshihiro Otsuka

Lead partner,
KPMG Japan
Integrated Reporting Center of Excellence



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About the Report's Title

This report has been published as Survey of Integrated Reports in Japan for five years, since 2014, but we have now changed the title to Survey of Integrated Reporting in Japan because the survey now covers narrative information in securities reports, as well as integrated reports.

About the survey

Starting this year, we have included both securities reports and integrated reports in the scope of the survey.

Purpose and background

The KPMG Japan Integrated Reporting Center of Excellence (CoE) believes that the voluntary efforts of companies that issue integrated reports help to raise value by enhancing dialogue between companies and investors. To raise the competitiveness of Japanese companies, it is vital to highlight achievements and challenges in this realm. This is why we have continued to survey disclosure trends in integrated reports by Japanese companies since 2014.

The Japanese Cabinet Office Ordinance on the Disclosure of Corporate Affairs was revised in 2019 as part of efforts to respond to the recommendations in “Realizing a Virtuous Cycle in the Capital Market,” a report released by the Financial System Council’s Working Group on Corporate Disclosure in 2018. In addition, the Financial Services Agency (FSA) published Principles for the Disclosure of Narrative Information. These efforts helped to augment information disclosure in securities reports.

Accordingly, in this survey we not only continued to study and analyze integrated reports themselves, but also surveyed the narrative information provided within securities reports, comparing it to the status of disclosure in integrated reports.

Given that the Principles for the Disclosure of Narrative Information and the revised Cabinet Office Ordinance on the Disclosure of Corporate Affairs went into force at the start of the fiscal year ending in March 2020, this survey aims to ascertain conditions prior to that. Going forward, we plan to carry out fixed-point observations of changes in disclosure in integrated reports and securities reports over a three-year period, including this year.

Scope

For the first time this year, the survey covers all 225 companies making up the Nikkei 225 Index (hereafter, “Nikkei 225 companies; see page 28). In the survey of integrated reports, we reviewed the 175 out of those Nikkei 225 companies that issue integrated reports, and in the comparison of disclosure in securities reports and integrated reports, we covered all of the Nikkei 225 companies.

To ensure continuity with the surveys of the past five years, which covered integrated reports only, the survey of basic information on integrated reports (pages 21-23) covers the reports of all companies (513 companies in total; see pages 29-30) included in the List of Japanese Companies Issuing Self-Declared Integrated Reports in 2019, which is issued by the Corporate Value Reporting Lab.

Methodology

Survey items were selected in consideration of the elements of content that are expected to appear in corporate reports and their significance for investors, who are assumed to be the primary readers, with reference to the standards, reports, documents and other publications shown below.

All the members of the survey team determined the report evaluation criteria together, and then a single researcher was assigned to each company and thoroughly read that company’s integrated report and securities report to confirm the content.

Thereafter, the entire survey team discussed, summarized and compiled the results of the analysis and recommendations.

Standards, reports and other used as references

- International Integrated Reporting Council (2013), ‘International Integrated Reporting Framework’
- Financial Services Agency (2019), ‘Principles for the Disclosure of Narrative Information’
- Financial Services Agency (2019), ‘Reference casebook of good practices on the disclosure of narrative information’
- Financial Services Agency (2019), ‘Guidelines for Investor and Company Engagement’
- Tokyo Stock Exchange (2018), ‘Corporate Governance Code’
- Tokyo Stock Exchange (2017), ‘Stewardship Code’
- Ministry of Economy, Trade and Industry (2017), ‘Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation’
- Financial System Council (2018), ‘Report of the Working Group on Corporate Disclosure’
- Financial Services Agency (2019), ‘Public comment on revised draft of Cabinet Office Ordinance on the Disclosure of Corporate Affairs’
- Robert G. Eccles, Michael P. Krzus, Carlos Solano (2019), ‘A Comparative Analysis of Integrated Reporting in Ten Countries’
- ACCA (2019), ‘Insights into integrated reporting 3.0: The driver for authenticity’

Recommendations

Aim for a comprehensive report that contributes to constructive dialogue between investors and companies

1

Communicate a story

What are the pieces management needs to convey a value creation story?

With each year of this survey, we found a growing number of corporate leaders issuing messages that convey their thinking in a vibrant way. Management is beginning to speak out, in accordance with their responsibilities, about their organization's goals, the initiatives they are pursuing to achieve those goals, and the value creation story behind them. Yet very few reports adequately convey the validity and feasibility of the management's story throughout

the overall report. Without access to the information that forms the pieces needed to tell the story, the reader cannot gain a good understanding. Conversely, readers may feel that any information that is not clearly related to the story is just noise.

It is vital to show the links between the information that shapes the value creation story, and also to explain it in the right order so that the reader arrives at an accurate understanding.

2

Convey non-financial information with material financial impacts

Why discuss materiality, and why include non-financial information?

A growing number of companies mention materiality, a core issue when discussing their value creation story. However, many companies still point to priority themes where they try to contribute to the resolution of social issues as material issues.

These companies need to be talking not about the social issues that they are trying to resolve, but the obstacles preventing them from realizing economic value, even as they are helping to resolve social problems—in other words, what factors could have a major impact on the

sustainability of a company's business model?

What changes in the business environment does the management team anticipate as they work to achieve the company's goals, and what do they think is critical to sustain their business in these conditions?

Material non-financial information with major financial impact is the key to expressing this specifically. This is precisely the kind of information that companies should convey to ensure constructive dialogue with investors seeking to assess a company's sustainability.

3

Share the underlying story across all mediums

Strengthen affiliations within companies and avoid inconsistencies between reporting mediums

Companies are trying to significantly enrich the narrative information in their securities reports in response to the revisions to the Cabinet Office Ordinance on the Disclosure of Corporate Affairs in 2019 and the Principles for the Disclosure of Narrative Information. Investors are trying to use the information in securities reports to make comparisons that can inform their investment decisions, and they will continue to value integrated reports as a medium in which companies step forward to share the story of how they will create value into the future. Companies often assign responsibility for the preparation of reports to different departments in order to meet a

various reporting needs and requirements. However, if the value creation story that underlies everything is not consistently expressed in all reports, the reader will naturally be skeptical about its validity and feasibility. The time has come for companies to share a consistent story by strengthening the affiliations between departments, and to take steps tailored to the role and readers of each type of media being used. These efforts will pay off by promoting dialogue between investors and companies and earning the company greater trust from investors.

Key Findings

Materiality

What factors affect the sustainability of a business model?

Materiality in integrated reporting refers to the importance of factors that could have a significant effect on the business model and the results it delivers. The Board of Directors should assess the importance of each material issue to ensure that materiality plays a role in management decision-making. Although 77% of the companies reviewed refer to materiality in their integrated reports, only 35% discuss it in terms of the sustainability of their

business model. Moreover, only a handful of companies explain how the Board of Directors is proactively involved in the materiality assessment process.

The FSA's Principles for the Disclosure of Narrative Information state that securities reports should use materiality as a means of evaluating whether the information is important for investors in making investment decisions.

Companies that explain materiality in terms of the sustainability of their business models

Materiality
P.07 ►

35%

Risks and opportunities

Material issues bring risks and opportunities into focus

When it comes to material issues, how should risks be managed once they are identified and how is value created from opportunities? The consideration to these questions will lead to the development of the company's most optimal strategies.

While 78% of companies discuss risks and opportunities in integrated reports, only 22% of companies explain the connection to its materiality assessment. Only a few companies

specify the likelihood, the timeline and the impact if the risk and opportunities materialize.

At first glance, securities reports appear to have more information than integrated reports on risk information. However, going forward, information on risk and opportunities should be considered from the perspective of whether it is useful to the reader.

Companies that explain risks and opportunities in connection with its materiality assessment

Risks and
opportunities
P.09 ►

22%

Strategies and resource allocation

What are the goals, and how will they be achieved?

Strategies are the roadmaps for a company to realize its vision for the future. They are critical for the ongoing creation of value in the medium and long term and must account for both risks and opportunities.

Although 86% of companies provide financial quantitative targets, only 26% of companies reporting non-financial quantitative targets.

Disclosing indicators in securities reports is important in helping readers

understand the overall management strategy. In addition to describing the strategy, laying out how the company assesses progress on reaching those indicators is essential. This applies to both non-financial and financial indicators.

Companies that report non-financial quantitative targets

Strategies
and resource
allocation
P.11 ►

26%

The financial footing essential for implementing strategies

Financial strategies are needed to ensure optimally balanced flows of financial capital and generation of the future cash flow needed to achieve the value creation story. An awareness of capital costs is particularly important here. Indicators that monitor financial strategies (earning capacity, capital efficiency, etc.) and targets, accompanied by an explanation of the reasons behind them, show that a company has an ability to implement

its financial strategies. Sixty-nine percent of companies present some sort of targets for their financial strategies, but only 29% explain their basis in terms of capital costs. In integrated reports, financial strategies are often discussed in the CFO's message. In securities reports, as well, it would be helpful to go beyond quantitative information and include an explanation that would aid understanding of the context.

Companies that describe targets for earning capacity and capital efficiency based on capital costs, and the basis for these targets

Capital costs and financial strategy
P.13 ►

29%

Reporting both progress and outlook for strategic targets

Integrated reporting expects to include not only achievements or progress toward strategic targets, but also to discuss the outlook for those targets. Discussions of progress based on the correlation between current results and medium- and long-term targets enable the reader to assess the feasibility of the company's aspiration to create value. Even when performance is worsening, the report can explain that this is a temporary stall and conditions

can be expected to improve. Many companies add reasons for the ups and downs in performance, but only 48% explain their current performance as part of the process of achieving medium- and long-term strategic targets. Specifying non-financial indicators that affect financial performance and analyzing the results based on these trends in securities reports makes them more persuasive.

Companies that explain the impact of their current performance on their short-, medium- and long-term strategic targets

Performance
P.15 ►

48%

Awareness of issues with a major impact and uncertainties

In integrated reporting, companies are expected to explain the major issues and uncertainties they foresee to confront as they pursue their strategies, as well as to describe the potential effects on the value creation story. The percentage of companies explaining the outlook was 74%. However, only 20% explain how their outlook which should be the premise for their materiality assessments, are related to material issues. In addition,

only a few companies provide a timeline alongside this information. In securities reports, companies that lay out their outlook for the business environment, which are the premises for materiality assessment and strategies, will give readers a better understanding of where those companies are heading.

Among those companies including outlook, those that explain how their outlook is related to their materiality assessment

Outlook
P.17 ►

20%

Determining the path to value creation, and supporting it

Governance requires that systems and mechanisms supporting improved value over the short, medium and long term are built, and then run effectively. Integrated reporting should explain this. The qualities of a CEO are one important element, but only 10% of companies specify this. The goals that companies want to achieve should include not just issues to grapple with in the short term, but medium- and long-term targets as well. Given this, companies should explain their thinking

on the qualities required of a CEO, the person responsible for the future of value creation. While progress has been made in governance reform, we still see boilerplate descriptions. In securities report, companies should lay out the connection between the governance system and strategic targets and provide explanations based on their own business's characteristics.

Companies that explain the qualities they look for in a CEO

Governance
P.19 ►

10%

Materiality

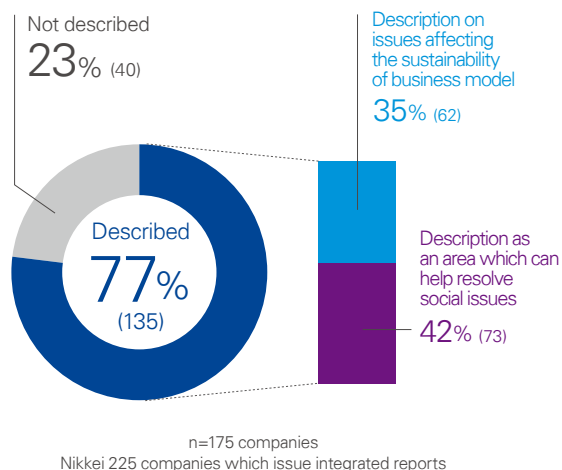
1 Explain materiality in terms of sustainability of business model

The percentage of companies referring to materiality rose to 77%. However, the breakdown reveals that 42% of these companies, analyzed material issues to identify key areas in which they could resolve social issues. Only 35% of companies identified material issues in terms of the sustainability of their business models (Figure 1).

Materiality in integrated reporting should describe the issues the companies identified as potentially affecting the sustainability of their business model, considering the potential changes in the future business environment. Readers want to know the medium- and long-term strategies that take into account the material issues the company has identified.

Analyzing and explaining the issues expected to have a high impact on the company's medium- and long-term value creation, rather than only identifying areas which contribute to society, will lead to a more constructive dialogue with investors.

Figure 1
Materiality



() : Number of companies

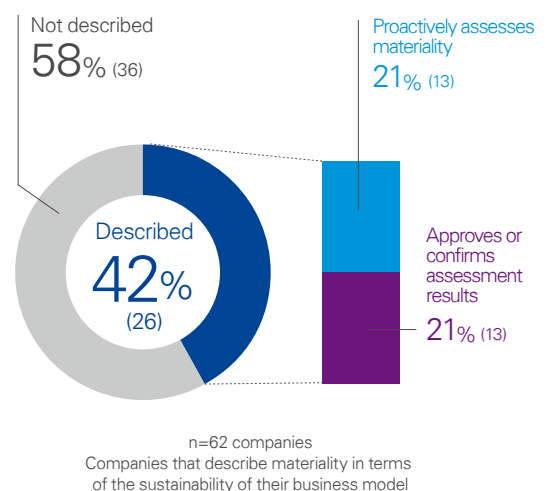
2 Involve the Board of Directors in assessing materiality

Of the companies which identified material issues in terms of their business model's sustainability, 42% mentioned the involvement of its Board of Directors in assessing materiality. However, for half of those companies, their involvement is limited to "approving or confirming" the results of the materiality assessment (Figure 2).

Materiality assessment is made from the perspective of the impact on the sustainability of a company's business model, based on the outlook on the potential changes in the business environment. For this reason, materiality assessment should form the basis for a company's strategic decision-making and resource allocation. Hence the Board of Directors should be involved in this process.

The Board of Directors' view on material issues is fundamental to the company's value creation story. Including this in the report fosters a deeper understanding of how the company identifies issues and creates sustainable value.

Figure 2
Board of Directors' involvement in the materiality assessment process



() : Number of companies

Good practice Describing the involvement of the Board of Directors in materiality assessment

One integrated report indicates that, in the materiality assessment process, the relevance of the company's material issues was considered at a management meeting and the board meeting.

The report also mentions the company's plans to regularly review material issues based on the progress of business plans on related issues and the change in the social and environmental changes.

Augmenting narrative information in securities reports

Include materiality perspective in securities reports

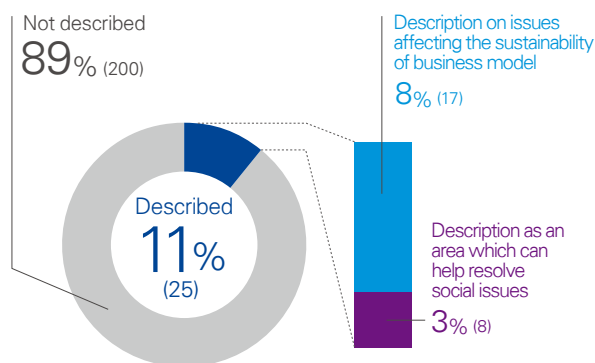
As more and more companies attempt to explain materiality in their integrated reports, it seems that a number of them view integrated reporting as an opportunity to assess materiality. However, only 11% of the companies provide information on materiality in their securities reports, of which 8% describe material issues as factors that could affect the sustainability of their business model (Figure 1-1).

Depending on the media used for reporting, the content or focus information which should be

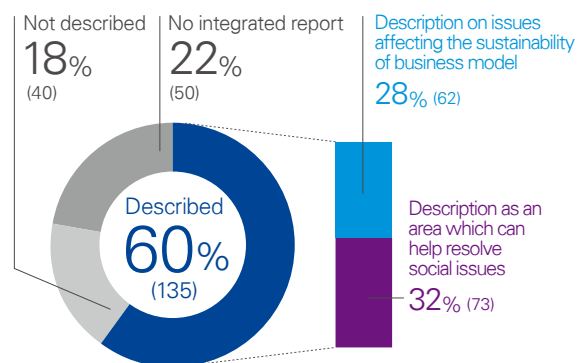
reported will also differ. However, all communication channels should share the same value creation story, as well as a common understanding of materiality that forms the foundation of the company's value creation story. The FSA's Principles for the Disclosure of Narrative Information expects that descriptions must reflect the company's understanding of what is material, always keeping in mind the interest of investors' investment decision making. The results of materiality assessments should also be included in the securities reports.

Figure 1-1 Materiality

Securities reports



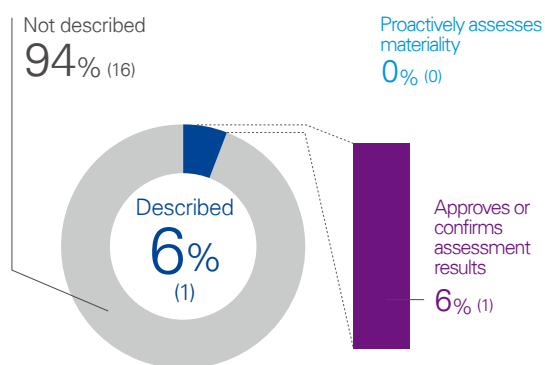
Integrated reports



n=225 companies; companies included in the Nikkei 225 Index

Figure 2-1 Description of Board of Directors' involvement in materiality assessment process

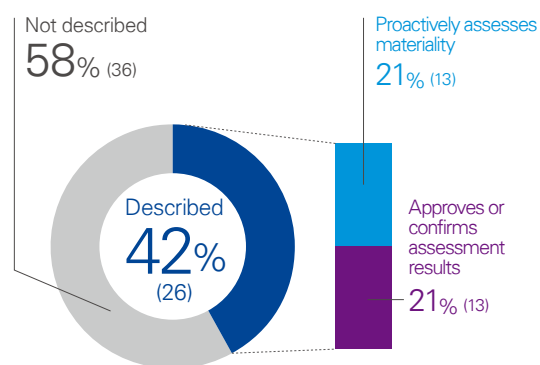
Securities reports



n=17 companies

Companies that describe materiality in terms of the sustainability of their business model

Integrated reports



n=62 companies

Companies that describe materiality in terms of the sustainability of their business model

() : Number of companies

Risks and opportunities

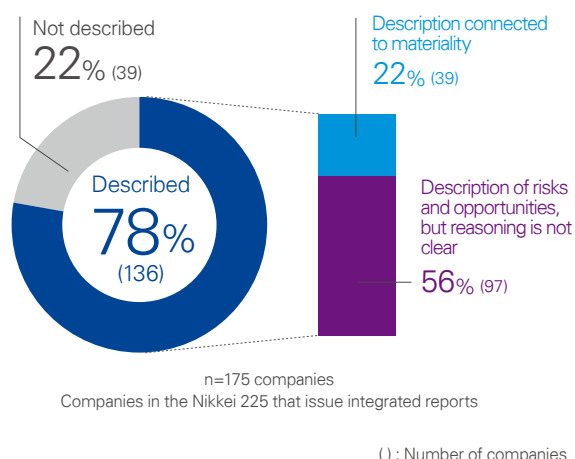
1 Explain risks and opportunities to show correlation with material issues

Of the companies surveyed, 78% explain risks and opportunities in their integrated report, but only 22% of those discuss risks and opportunities in terms of how they relate to the results of the materiality assessment (Figure 1).

This is likely due to the low percentage of companies who assess materiality in terms of the sustainability of their business model. Since materiality, on the one hand, and risks and opportunities, on the other, are assessed in two separate processes, they cannot be discussed in an interlinked manner.

Companies must analyze the material issues they face as they pursue their purpose, and then address the risks and opportunities resulting from the uncertainties that this analysis identifies. It is important to tell readers a story in which purpose, decisions about materiality, and risks and opportunities are linked together.

Figure 1
Risks and opportunities (including only risks)



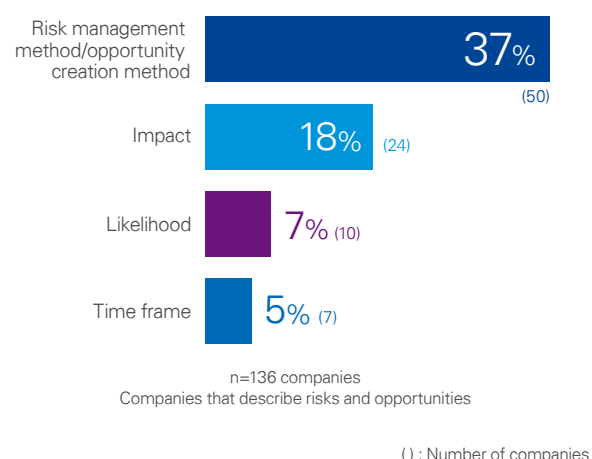
2 Explain management awareness of risks and countermeasures

Of those companies that discuss risks and opportunities in their integrated report, 37% explain how they manage risk, but most only describe their systems and mechanisms. Less than 20% of companies mentioned the likelihood that these risks could materialize, the timeframe, and the impact that would have if they did materialize (Figure 2).

If readers are able to understand not only the risk management system and method, but risk responses, they will be able to determine whether that company is effectively managing risk.

Take, for example, a company that has categorized key risks into strategic risks and operational risks, assessed the likelihood that these risks will occur, the time frame and their potential level of impact, and then presented countermeasures tailored to these specific risks. The reader will conclude that it is highly likely that the management of this company is proactively and properly managing risk.

Figure 2
Details of risks and opportunities



Good practice Management discusses risks and opportunities in value creation story

A message from one company president discusses the issues that the company should focus on in light of the management environment and lays out a summary of the material risks in resolving these issues and how the company would respond. The president's message explains the risks and opportunities that the company has

identified for achieving its purpose. This makes for a coherent value creation story.

In this example, the president explains the likelihood that these risks will occur and their impact in a timeframe, as well as specific measures tailored to each of the risks. This clearly demonstrates to the reader that effective risk management is in place.

Augmenting narrative information in securities reports

Disclose basic information so that the likelihood of financial risks and their potential impact can be measured

Eighteen percent of the companies surveyed described the “impact” in their integrated report, while 25% did so in securities reports (Figure 2-1). Securities reports provided more information on risks than integrated reports, but there are several points related to quality that need improvement.

For example, simply stating that a risk “can affect financial conditions and operation results” does not give the reader enough information to measure the likelihood of occurrence and the impact it would have. Moreover, accounting estimates that can have a major effect on financial conditions and business results may be important risks to managers with a responsibility for reaching earnings targets.

However, information on the fundamental risks that could cause changes to accounting estimates and information that is helpful in predicting future cash flow would be useful for readers.

In this respect, the information provided on risks in integrated reports may be minimal, but it includes information that is helpful to readers that is not being provided in securities reports. Both securities reports and integrated reports are mediums that provide information indispensable to investor decisions on corporate value. If the goal is the same, the two kinds of reports should be consistent.

Figure 1-1 Risks and opportunities (including only risks)

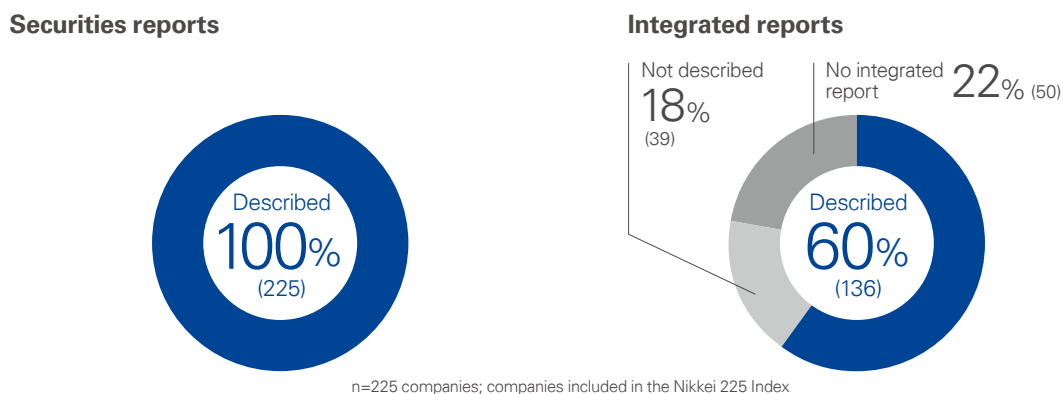
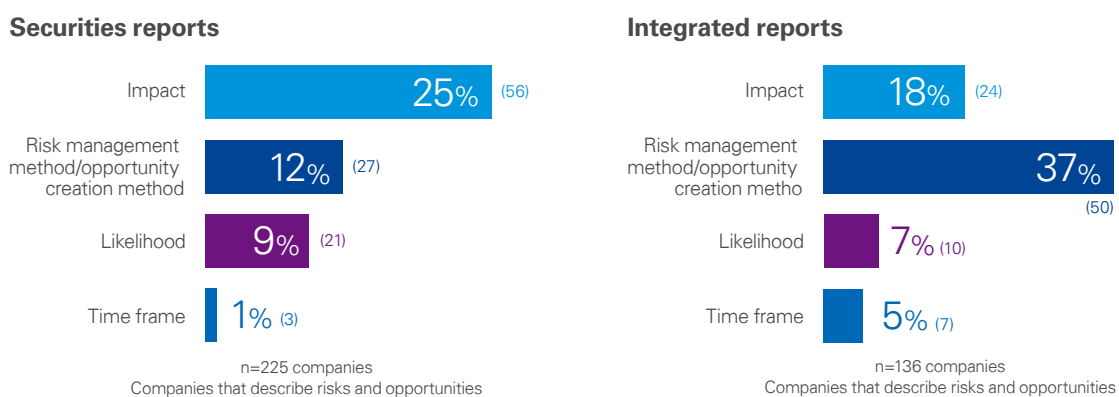


Figure 2-1 Details of risks and opportunities



() : Number of companies

Strategies and resource allocation

1 Consistently describe the company's vision and the path it will take to achieve it

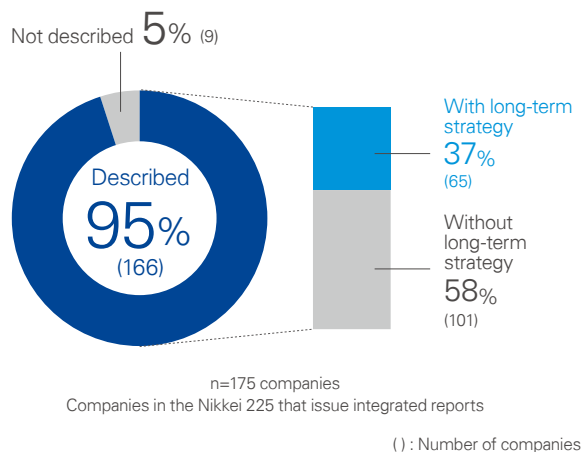
A holistic view in corporate management is needed to increase profitability over the long term and continue to provide social value.

In this survey 95% of the companies describe their medium-term business plans in their integrated report, but only 37% argue this with a description of their long-term strategy (Figure 1).

When companies explain their long-term strategies, but without clarifying their role and relationship with the medium-term business plan, readers cannot get a clear sense of the company's precise vision in the long term. A company has to consider matters that are less likely to yield tangible results in the short and medium term and must instead be addressed over a longer time-span, such as HR development and R&D, in order to achieve its vision. Moreover, the longer the perspective, the greater impact the company's business activities will have.

Management should identify the stakeholders that have a major impact on sustainable value creation and speak convincingly from a more panoramic viewpoint about their vision and the path to achieving it.

Figure 1
Medium-term business plan (three years or less)



2 Describe measures to achieve strategies, and specific targets

Eighty-six percent of companies provide financial targets in integrated reports, but only 26% reveal quantitative non-financial targets (Figures 2 and 3).

Providing specific targets is a sign of a strong commitment to achieving those targets, and it is the starting point for a better understanding of a company's strategies. Listing targets not only for financial information, but also for non-financial aspects that have a significant effect on sustainable growth, and explaining their correlation with financial performance, is to deepen understanding of a company's sustainability.

In addition, companies should explain the specific steps they are taking to achieve their targets in a succinct way.

Nevertheless, 48% of companies lack a description of their strategies broken down by each line of business (Figure 4). In addition, only 18% of companies lay out the relationship between the value driver and strategies and clarify their approach to resource allocation (Figure 5).

Ideally, companies should base the information they provide not only on strategies, but on specific measures, their approach to resource allocation, and indicators that can convey their progress toward achieving their vision.

Figure 2
Quantitative financial targets

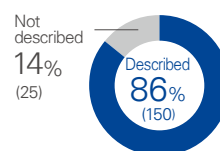


Figure 3
Quantitative financial targets

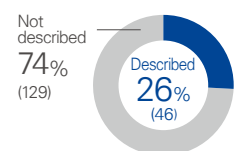


Figure 4
Strategies, by business

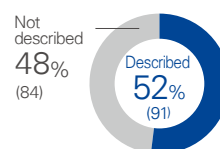
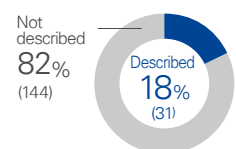


Figure 5
Relationship between strategic targets and value drivers



Good practice Describing vision for the future and strategies based on integrated thinking

One report provides future visions not only for profit, but for the impact the company will have on stakeholders in society. This report specifies the resources needed to achieve these visions and the methods for procuring these resources as long-term strategies and a medium-term business plan, which is a milestone in that effort.

Corporate social responsibility is, in essence, effectively employing the resources provided by society and proving useful and valuable to society on an ongoing basis.

This is a good example of how CSR initiatives, which have tended to be considered separately from the main business, should now be seen in an integrated manner—using integrated thinking—and incorporated in a company's vision.

Augmenting narrative information in securities reports

Explain management strategy in a multifaceted way

This survey found that 94% of companies described their medium-term business plans (spanning up to three years) in their securities reports, but only 18% of those included an explanation of long-term strategies (Figure 1-1). Moreover, only 26% of all companies described their strategies by business in their securities reports (Figure 4-1).

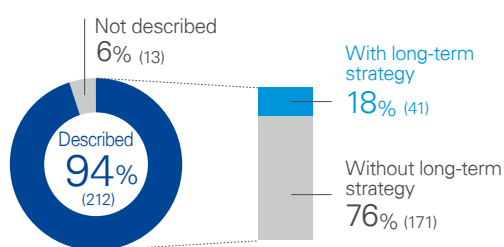
Companies that have clear long-term targets as well as long-term strategies to achieve these goals, as well

as a medium-term plan laying out the steps, should describe these long-term strategies and medium-term business plans in their securities reports.

Moreover, an explanation of specific measures by business and region, along with the scale of investment and targets, will foster better understanding of a company's medium- and long-term strategies.

Figure 1-1 Medium-term business plan (three years or less)

Securities reports



Integrated reports

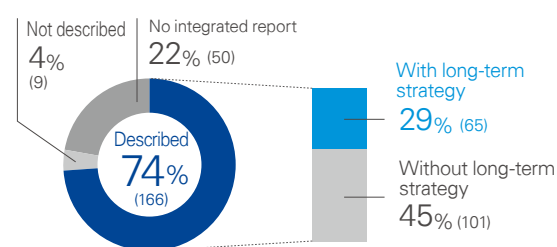
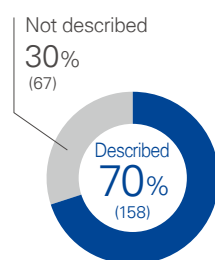


Figure 2-1 Quantitative financial targets

Securities reports



Integrated reports

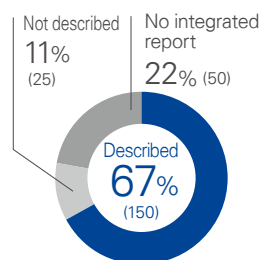
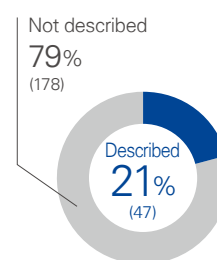


Figure 3-1 Quantitative non-financial targets

Securities reports



Integrated reports

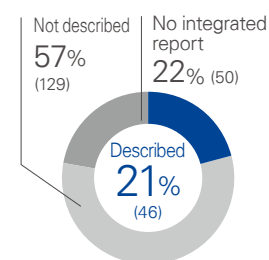
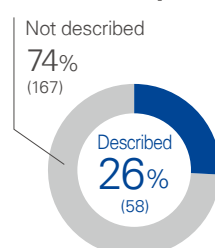


Figure 4-1 Strategies, by business

Securities reports



Integrated reports

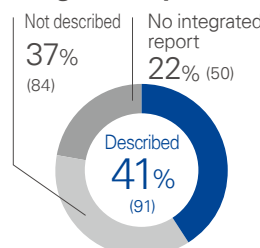
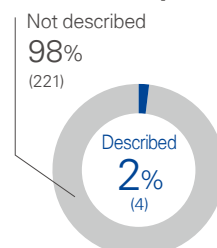
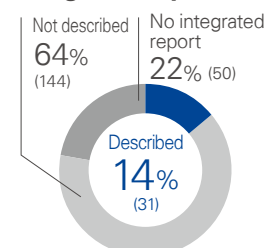


Figure 5-1 Relationship between strategic targets and value drivers

Securities reports



Integrated reports



n=225 companies; companies included in the Nikkei 225 Index

() : Number of companies

Capital costs and financial strategy

1 Provide indicators for capital costs and the reasoning behind them

Indicators that monitor the appropriate cycle of the funds needed for strategy implementation (such as ROE), and targets, as well as explanations of progress on these, are useful information that helps readers assess the feasibility of management strategies.

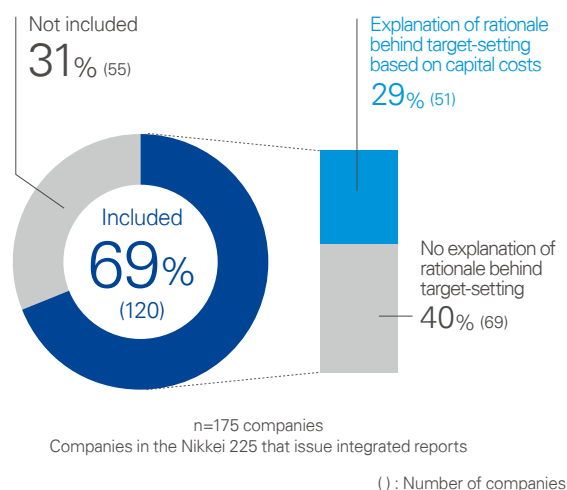
In integrated reports, 69% of companies provide some kind of indicators and targets for these indicators. However, only 29% of companies overall explain the reasons that led them to set these targets, with references to capital costs. This is still low (Figure 1).

Management strategies are more persuasive if they include indicators whose feasibility is backed up from a financial perspective, together with targets and the rationales behind them. Moreover, explanations of the perception of the company's capital costs, based on business risks, are essential.

Companies that develop multiple businesses may find it effective to describe the thinking behind their capital costs, broken down by business.

Adequate communication can lead to more effective management of capital costs, thus leading to reductions in these costs.

Figure 1
Targets for earning power and capital efficiency



2 Describe policy for fund procurement and allocation

An examination of the reports for descriptions of funding policy and methods found that 37% of companies mention some sort of policy on securing financial resources (Figure 2). Many of these companies describe their target D/E ratio and their methods for financing (Figure 3).

When it comes to policy for allocation of funds generated in business, 57% of companies explain how they use their funds (Figure 4). Most companies describe policy on shareholder returns, with the next most common being growth investments (Figure 5). However, in many cases, the companies explain shareholder returns or investment plans separately without giving the reader an overall picture (a balanced view) of their fund allocation policy.

Companies should clearly specify their overall policies for capital distribution, such as growth investments, cash on hand and shareholder returns, based on the lifecycle of their businesses and their optimal capital structure, and show how the policies reinforce the feasibility of their management strategies.

Figure 2
Funding methods

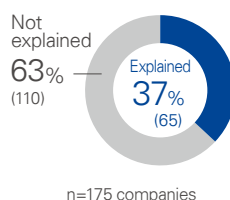


Figure 3
Content of explanation of funding methods

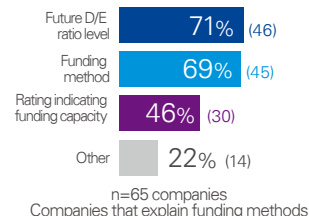


Figure 4
Policy on fund allocation

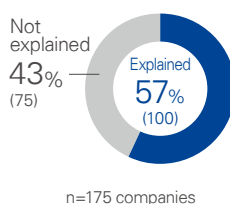
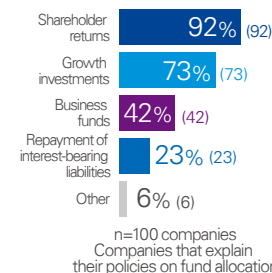


Figure 5
Content of explanation of how funds are allocated



Good practice

Explanations of company-wide initiatives on capital efficiency and financial policy corroborate the feasibility of strategies

One company specifies an indicator for capital costs as one of the indicators it uses to assess performance related to management strategies and shows the specific targets and the extent to which they have been achieved along a timeline. This report conveys a strong commitment to the company's strategies.

The report also provides indicators by business and targets broken down by division, which indicates that management

understands the importance of capital costs and that this mindset has spread down company-wide.

Moreover, it also includes an explanation of efforts to achieve balance in capital allocation, such as capital investment, growth investment and shareholder returns, thereby ensuring that the company's policy for achieving its strategies is conveyed to the reader.

Augmenting narrative information in securities reports

Include the content of a CFO's message in the securities report and encourage understanding of management strategy and financial strategy

The Principles for the Disclosure of Narrative Information, released by the FSA in March 2019, asks that companies provide information on the source of capital and their definition of and approach to capital costs in securities reports.

Management's awareness of funding methods and the main applications of funds are indispensable information for investors assessing the feasibility of management strategies. In integrated reports, this is

often explained in the CFO's message, but if it can be included in securities reports while ensuring consistency, corporate leaders can explain their thinking on financial strategies based on capital costs and deepen dialogue with investors.

A succinct explanation of policies related to fund allocation is also a useful response to criticism of Japanese companies that have high internal reserves.

Figure 1-1 Targets for earning power and capital efficiency

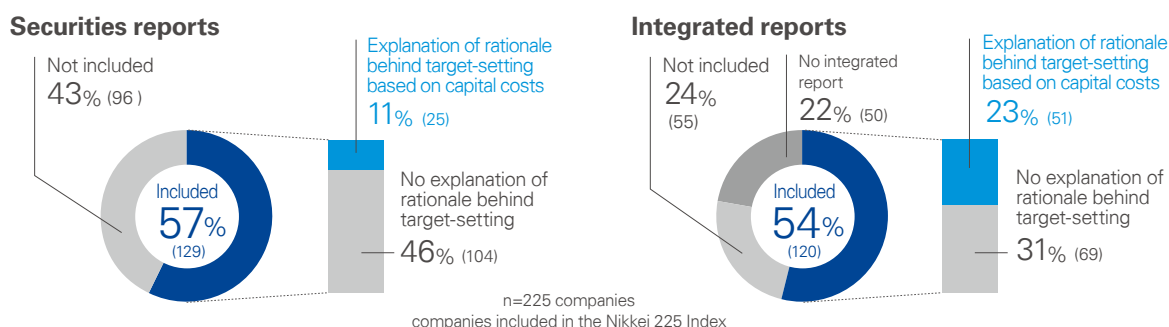


Figure 2-1 Funding methods

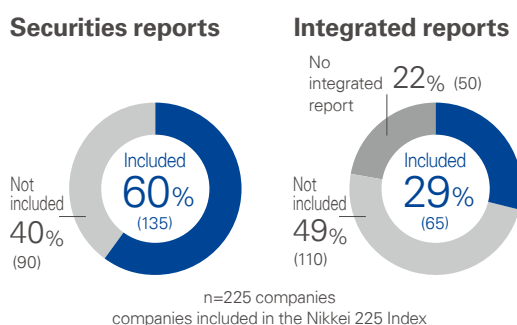


Figure 3-1 Content of explanation of funding methods

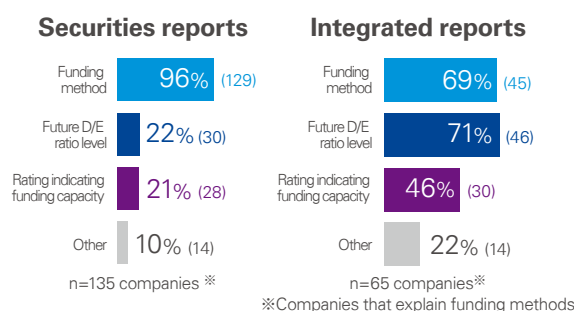


Figure 4-1 Policy on fund allocation

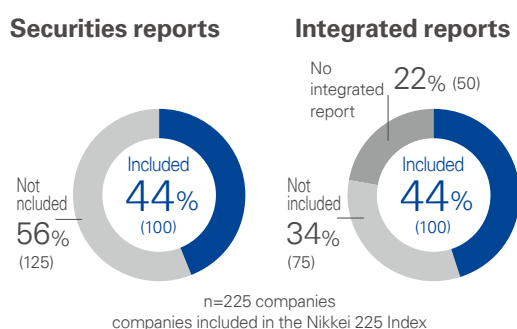
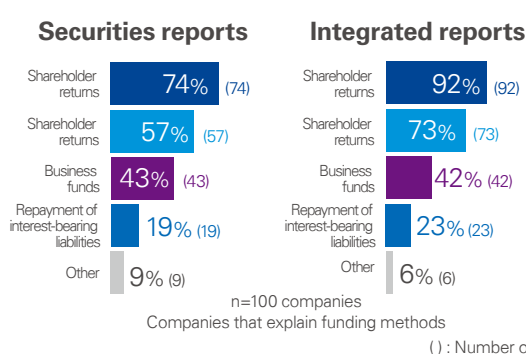


Figure 5 Content of explanation of how funds are allocated



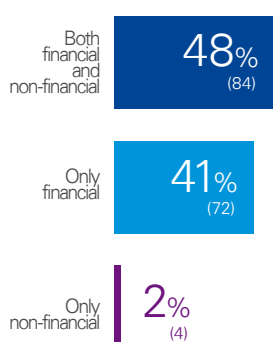
1 Can the value created be explained using financial indicators alone?

We see many examples of companies that ambitiously proclaim their contributions to the sustainability not only of their company, but also of society, in their medium- and long-term strategies, established based on their own strengths and characteristics. The extent to which social value creation has been achieved must be demonstrated using unique indicators that do not rely only on financial figures. If companies are working to achieve strategic targets from a more medium- to long-term perspective, it is more meaningful to provide results that cannot be depicted using short-term financial indicators.

However, only 48% of companies use financial and non-financial indicators to explain the extent to which strategic targets have been achieved, and 41% of companies explain this using financial indicators alone (Figure 1).

Moreover, only 24% of companies explain the reasons that they chose the performance indicators reported (Figure 2). In particular, providing non-financial indicators together with an explanation of why these indicators were chosen helps readers understand the impact that these indicators have on long-term financial results.

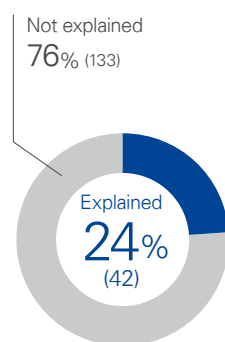
Figure 1
Performance indicators used to explain extent of achievement of strategies



n=175 companies

Companies in the Nikkei 225 that issue integrated reports

Figure 2
Reasons for choosing performance indicators



() : Number of companies

2 Explain correlation between medium- and long-term targets and results, and communicate progress

At 75%, a relatively high percentage of companies explain the reasons for ups and downs in results in their integrated reports, showing a commitment to explaining the circumstances leading to their current results (Figure 3). However, only 48% of companies explain the position of current results on the path to achieving their medium- and long-term strategic targets and the correlation (Figure 4).

Analyzing current results and explaining how this will affect the forecasts for the achievement of targets for medium- and long-term value creation can help the reader understand that even a deterioration in results is a temporary slump on the company's path to future advancements.

The relevance of strategic targets may have to be reassessed if outlook for the business environment change significantly from the point that targets are set. Even in such cases, explanations of progress made toward targets would be useful information.

Figure 3
Explanation of reasons for ups and downs in results

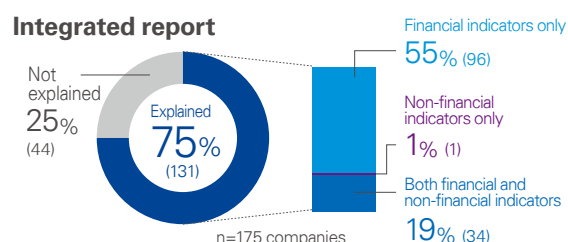
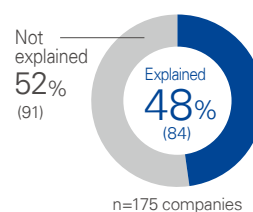


Figure 4
Impact of current results on achievement of strategic targets



() : Number of companies

Good practice Explaining the financial value created by achieving non-financial target

One company selects material issues that affect value creation, identifies non-financial information useful in addressing related risks and opportunities, and then provides targets for each indicator. The company also identifies the financial value created by achieving these non-financial targets, and whether they contribute to the milestones used to assess current progress on its long-term vision.

Listing indicators in this way and explaining the progress made so far makes it easier for the reader to understand the logic behind the initiatives taken to achieve the medium- and long-term targets, and it also makes for a more persuasive story about the value creation the company aspires to achieve.

Augmenting narrative information in securities reports

Provide useful non-financial performance in securities reports, as well

Integrated reports must explain the analysis of financial performance in that fiscal year, and indeed 88% of companies explain the reasons behind both ups and downs in results (Figure 3-1). Moreover, of those companies that explain the reasons for these ups and downs, 83% use only financial indicators to explain these changes, but only 5% use both financial and non-financial indicators.

Companies that explain ups and downs using both financial and non-financial indicators designate non-financial factors that affect results, and analyze

business performance while taking trends in non-financial indicators into account.

Financial results are naturally weighed heavily as indicators for assessing management results, but an assessment of performance based on non-financial indicators is useful information in assessing current corporate value. An explanation based on trends in non-financial indicators that affect sales and costs will help to improve the persuasiveness of the analyses of business performance in securities reports.

Figure 1-1 Performance indicators used to explain extent of achievement of strategies

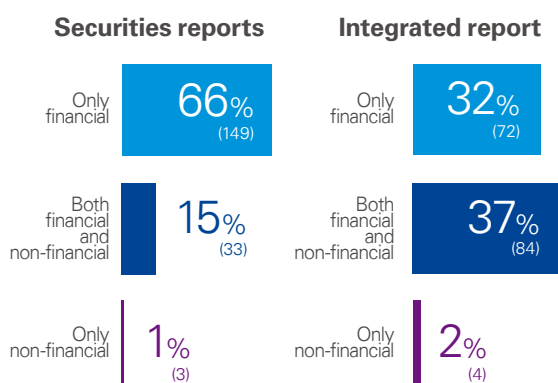


Figure 3-1 Explanation of reasons for ups and downs in results

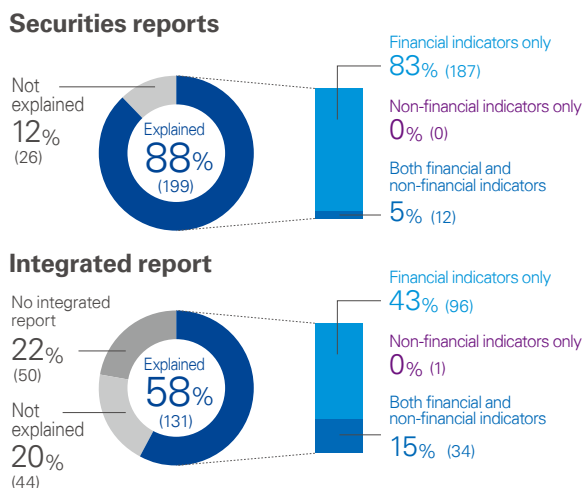


Figure 2-1 Reasons for choosing performance indicators

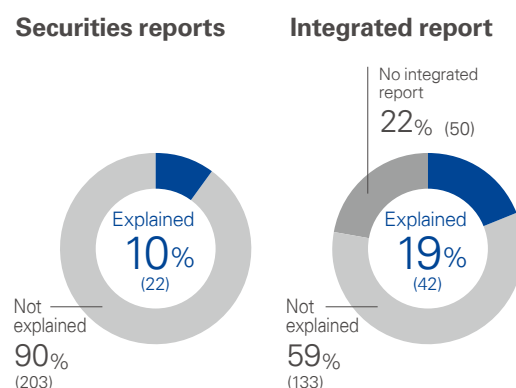
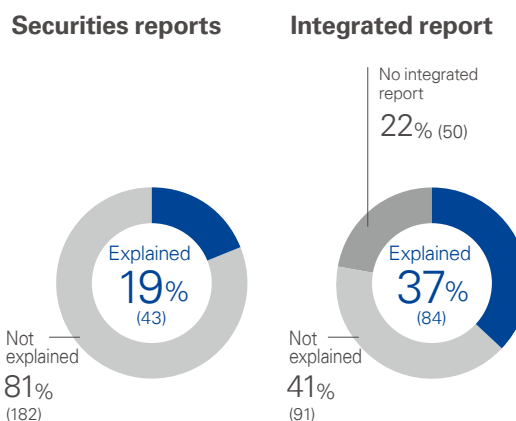


Figure 4-1 Impact of current results on achievement of strategic targets



n=225 companies
Companies in the Nikkei 225 that issue integrated reports

() : Number of companies

Outlook

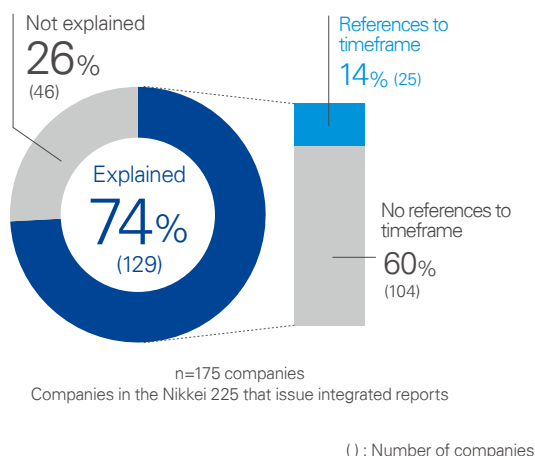
1 Clearly show the timeframe for outlook

This survey showed that 74% of companies explain their outlook in their integrated report, but only 14% of companies refer to their timeframe (Figure 1).

If the outlook for the business environment on which the value creation story is premised are not explained, it is difficult for the reader to understand where the story came from, and this impairs its reliability. Even if outlook for the business environment are explained, without a narrative based on a timeframe, the trajectory for achieving this value creation story remains vague.

Outlook of the business environment become increasingly uncertain the longer the timeframe is. When explaining outlook, it becomes easier to convey management's intentions if the timeframe for these outlooks is laid out. This helps to give the reader an accurate understanding.

Figure 1
Outlook



2 Link outlook to the value creation story

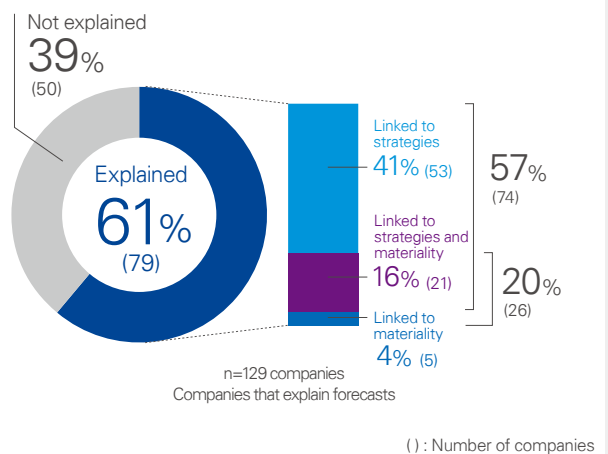
Of the companies explaining their outlook of the business environment, 20% of companies explain how those outlooks are related to materiality assessments, and 57% of companies explain how they are related to their strategy (Figure 2).

The reports show that many companies consider their strategies based on outlook of the business environment, when crafting their medium-term business plan. However, few companies explain why their materiality assessment arrived at a particular result.

Companies in the same industry and in similar business environments will probably not show major differences in the results of their materiality assessments. However, although they may arrive at the same assessment results, individual companies' outlooks still differ depending on their corporate philosophies, strengths and past trajectories.

Companies can tell a more compelling value creation story if they discuss why they arrived at their materiality assessment results and why they devised such strategies by linking it to their outlook.

Figure 2
Outlook linked to materiality and strategies



Good practice

Awareness of environmental change in short, medium and long term and explanation of corresponding outlook

One company's report describes its thinking about environmental changes and explains their resulting outlook in terms of short-, medium- and long-term timeframes.

The president's message explains changes in the business environment anticipated in the different timeframes and specific initiatives from a long-term perspective, the medium-term perspective in the explanation of

medium-term business plans, and the short-term perspective in explanations of business strategies for each fiscal year.

This sort of treatment makes it easy to understand the outlook that are the basis for companies' implementation of business plans in the short-, medium- and long-term, resulting in a highly persuasive value creation story.

Augmenting narrative information in securities reports

Augment explanations of managers' perceptions of business environment

Only 44% of companies describe their outlook for the business environment in their description of management policies and strategies in their securities reports (Figure 1-1).

Companies should lay out their outlook for factors in the business environment that could affect them, such as disruptive innovation, aging population, and consumption tax increases, and then explain how these factors will affect their value creation and strategies.

Moreover, readers want to see not only what kind of business environments affect companies,

but management's perceptions of those environments and the impact they have on how the manage the company.

The FSA's Principles for the Disclosure of Narrative Information calls for companies to explain management's perceptions of the environment in which they operate together with a connection to the substance of the company's business in their descriptions of management policies and strategies. This clearly indicates that management is expected to explain the business environment more fully even in securities reports.

Figure 1-1 Forecasts

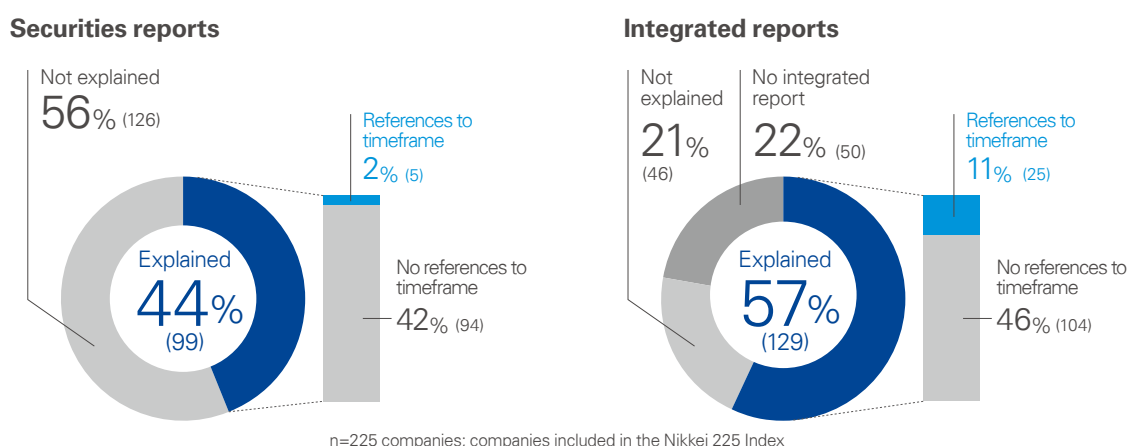
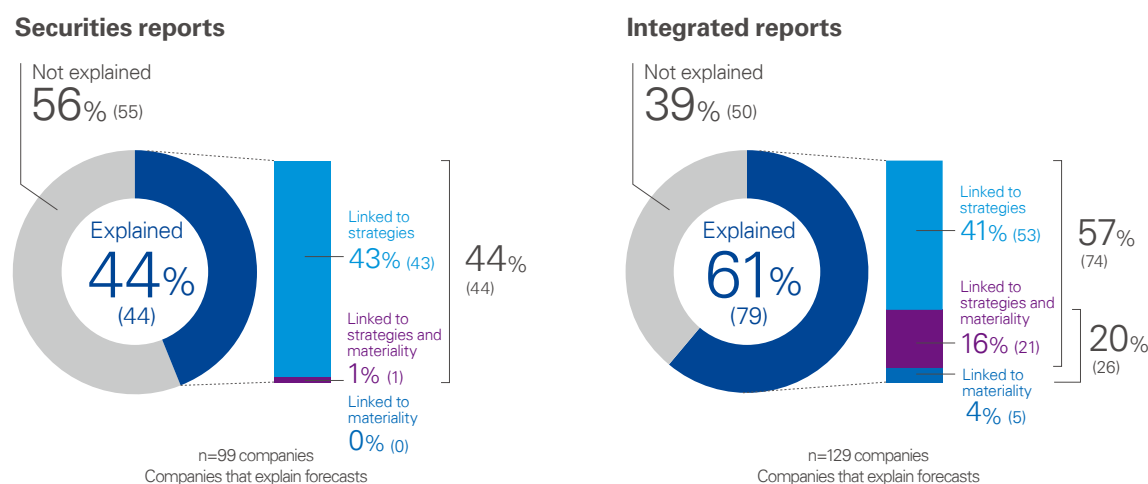


Figure 2-1 Outlook linked to materiality and strategies



() : Number of companies

1 Explain policy for selecting and dismissing CEO, and compensation system as mechanism supporting strategic implementation

The CEO is a company's top executive, with responsibility for its sustainable growth. As such, one of the most important roles of the board of directors is to use objective, timely and transparent procedures to appropriately select a person who can make bold management decisions suited to changes in the environment as the CEO.

The survey showed that 10% of companies explain the qualities they require in their CEOs and 11% of companies explain their process for removing a CEO, which are both low (Figures 1 and 2).

Fifty percent of companies explain their evaluation and calculation methods for the elements making up compensation for directors, which should function as sound incentives for achieving sustainable growth. Forty-two percent of companies explain the percentage of each element in compensation overall (Figure 3).

Describing the specific requirements and qualities required of CEOs and the highly transparent procedures for selecting and removing CEOs leads to a solid explanation of the strategy implementation system. Describing a rational compensation scheme also helps to present the incentive-linked system for improving medium- and long-term corporate value and reflects integrated thinking about the compensation system's design.

Figure 1
Qualities required of CEO

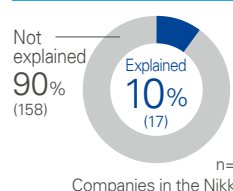


Figure 2
Procedure for dismissing CEO

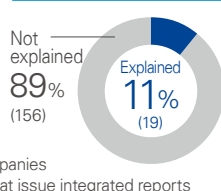
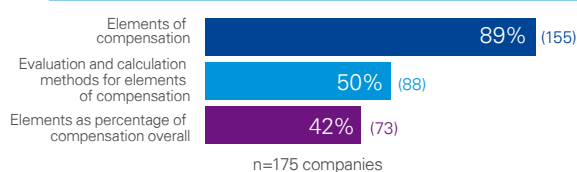


Figure 3
Content of explanation of director compensation



2 Explain the issues identified in board evaluation and status of response

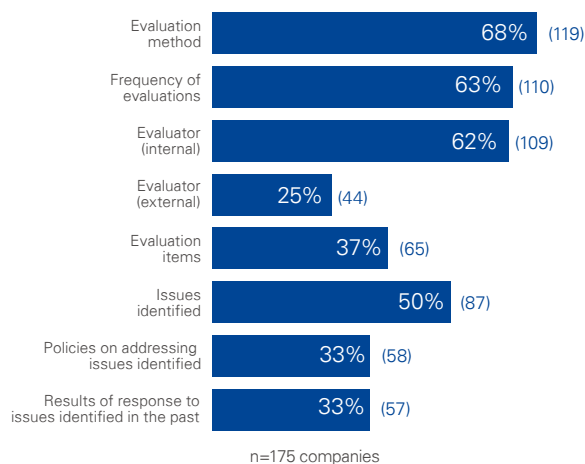
Describing the appropriate function and effectiveness of the board of directors, which support medium- and long-term growth in corporate value, helps to present the mechanisms needed to achieve the purpose.

In integrated reports, 68% of companies state that they carry out evaluations using questionnaires and interviews and 63% note the frequency of these evaluations. In contrast, only 37% of companies note the evaluation items, and even fewer companies describe the response to identified issues and the results of the response to issues identified in the past (Figure 4).

Conveying effectiveness of the boards means more than simply describing the Board composition and regular reviews being conducted. Companies should explain the correlation between strategic goals and board evaluation and then lay out the ongoing processes followed to improve issues that have been identified and reinforce strengths.

In addition, describing the status of evaluations performed by external organizations can enhance the transparency and objectivity of the effectiveness evaluations.

Figure 4
Content of explanation of board evaluation



Good practice

Laying out current conditions and future course, even when certain initiatives are still merely under consideration

One integrated report explains the status and progress on all matters requiring disclosure in the corporate governance code. It is notable that the report provides information not only on the initiatives the company has already carried out, but also explains the status and direction of initiatives which are still under consideration.

Even if it is difficult to address all points that could improve corporate governance in the short term, an explanation of the direction of such efforts would show that a company is actively committed to improving corporate governance and being in dialogue with investors.

Augmenting narrative information in securities reports

Explain governance with consideration for the link to medium- and long-term visions and strategies

Explanations of corporate governance in securities reports often include more details than integrated reports on certain points. At the same time, many only repeat boilerplate descriptions used before, and there is insufficient information on how governance is connected to achieving sustainable

growth and improving corporate value for the medium and long term.

Going forward, companies should augment their explanations of governance to include its links to medium- and long-term strategies.

Figure 1-1 Qualities required of CEO

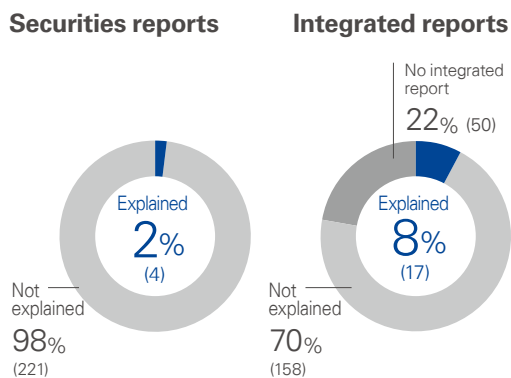


Figure 2-1 Procedure for removing CEO

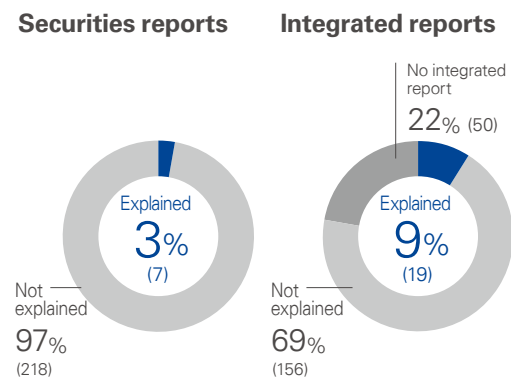


Figure 3-1 Content of explanation of director compensation

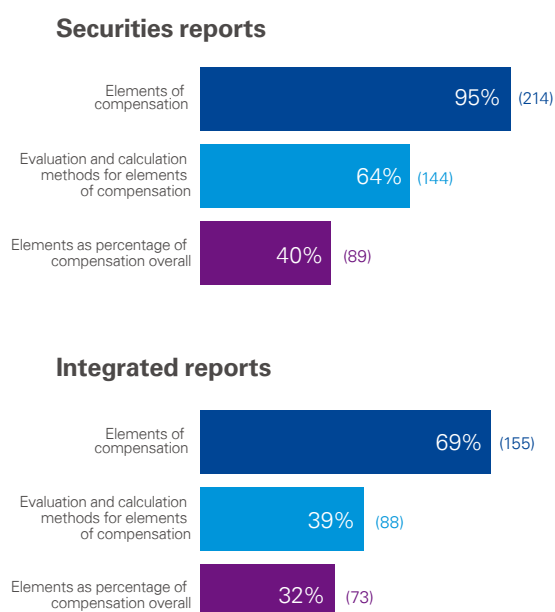
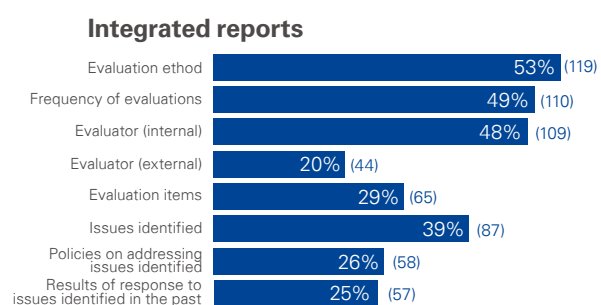
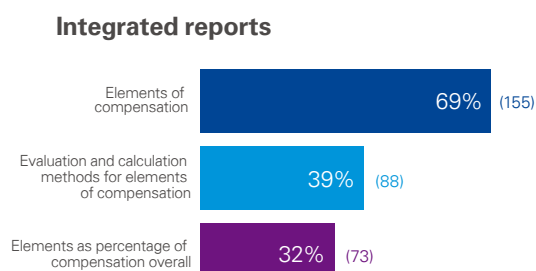
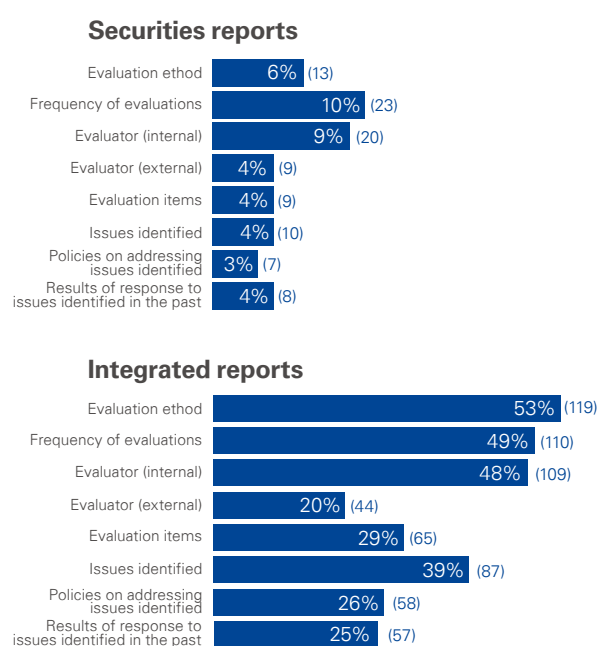


Figure 4-1 Content of explanation of board evaluation



n=225 companies; companies included in the Nikkei 225 Index

() : Number of companies

Basic Information

About the Issuing Companies

Number of Japanese companies issuing self-declared integrated reports

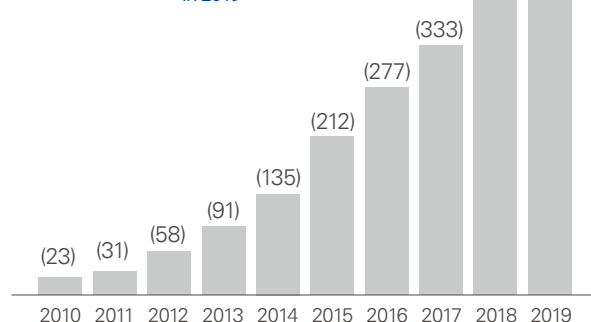
In 2019, 513 companies issued an integrated report, up 89 companies from 2018. This was the ninth straight year of growth surpassing 20%.

This is an indication that constructive dialogue between companies and investors is developing, and that the need for and use of integrated reports as a tool in this dialogue is progressing.



513 companies

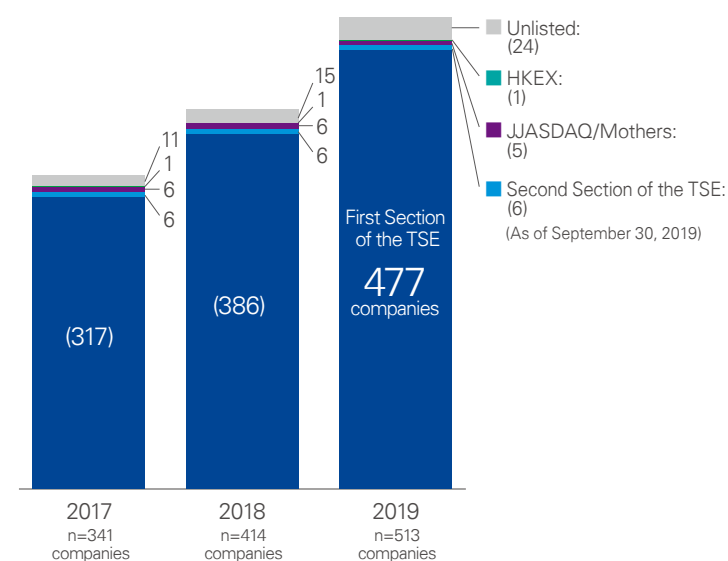
The number of companies issuing integrated reports in 2019



Source: "List of Japanese Companies Issuing Self-Declared Integrated Reports 2019," Corporate Value Reporting Lab

Listing market of issuing companies

As in other years, companies listed on the First Section of the TSE led growth in the number of issuances, accounting for 477, or 93%, of all issuing companies.

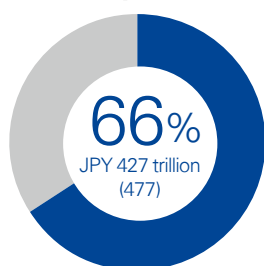


Percentage of issuing companies in the First Section of the TSE (total market capitalization, number of companies)

The total market capitalization of the 477 companies that issued an integrated report accounts for 66% of the market capitalization of the 2,162 companies listed on the First Section of the TSE as of December 31, 2019, an increase from 58% in the previous year.

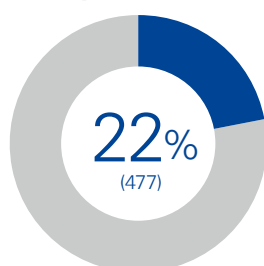
Twenty-two percent of those listed companies (477 out of 2,162 companies) issued an integrated report, and it would appear that large companies account for many of those.

Percentage of total market capitalization



n=JPY 648 trillion (2,162 companies)
* As of December 31, 2019

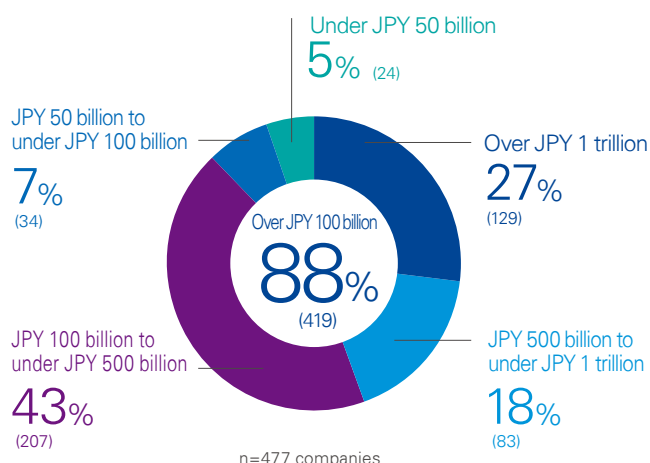
Percentage of issuing companies



n=2,162 companies

Sales of issuing companies

A survey of the sales of the issuing companies listed on the First Section of the TSE showed that 88% of those companies had sales of JPY 100 billion or more. This supports the finding that large companies are increasingly issuing integrated reports.

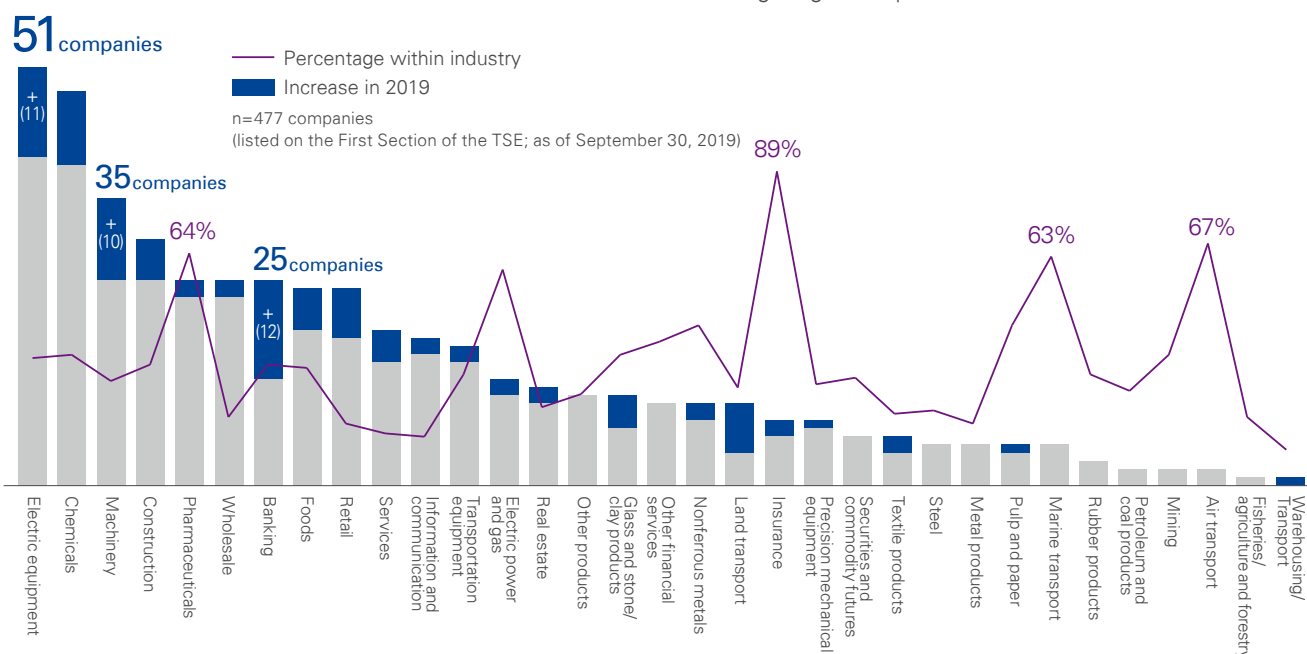


Industries of issuing companies

The highest number of issuing companies came from the electric equipment sector for the fifth year in a row, up by 11 over the previous year to 51 companies. The banking sector had the highest number of first-time issuers this year, at 12, with many of those being regional banks. The number of first-time issuers in the machinery industry was 10, and B2B companies are also increasing their report issuance.

By industry, the insurance sector had the highest percentage of issuance, at 89%, followed by the air transport industry (67%), pharmaceuticals (64%) and the marine transport industry (63%).

The warehousing/transport industry had no companies issuing reports through last year, but saw its first issuing companies this year. As a result, all industrial sectors now have companies issuing integrated reports.



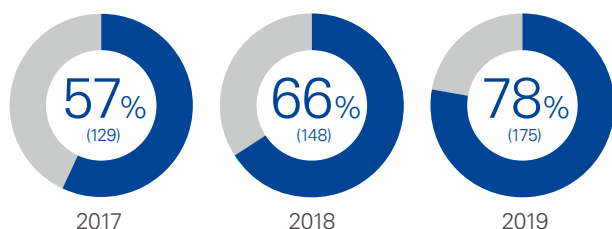
Index attributes of issuing companies

The percentage of issuing companies making up the Nikkei 225 and the JPX Nikkei 400 has steadily increased year by year. The percentage of companies in the Nikkei 225 that issued reports

rose 12 percentage points over the previous year to 78% and rose 5 percentage points to 60% for the JPX Nikkei 400.

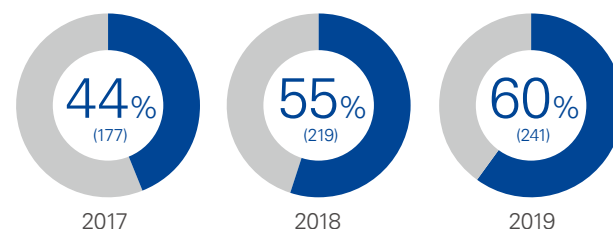
Nikkei 225 component percentage

n=225 companies



JPX Nikkei 400 component percentage

n=400 companies



Number of issuing companies

Past comparative data in this survey is based on the number of companies issuing reports at the time of each survey (excluding "Fluctuations in the Number of Companies Issuing Self-Declared Integrated Reports in Japan").

Therefore, the number of companies issuing reports in past surveys diverged from the number of companies issuing based on the latest survey of the Corporate Value Reporting Lab.

Reference: The number of issuing companies at the time of the survey (as of December 31)

2017: 341 companies
2018: 414 companies

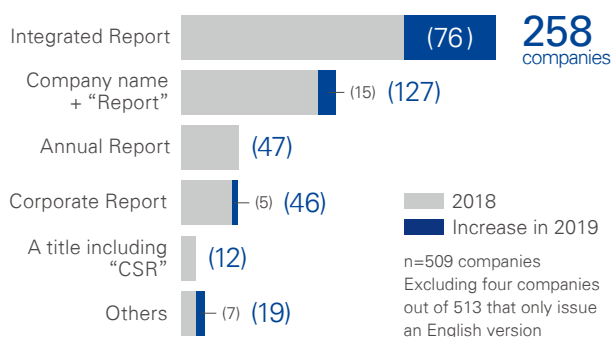
Basic Information

About the Issuing Companies

Title of reports

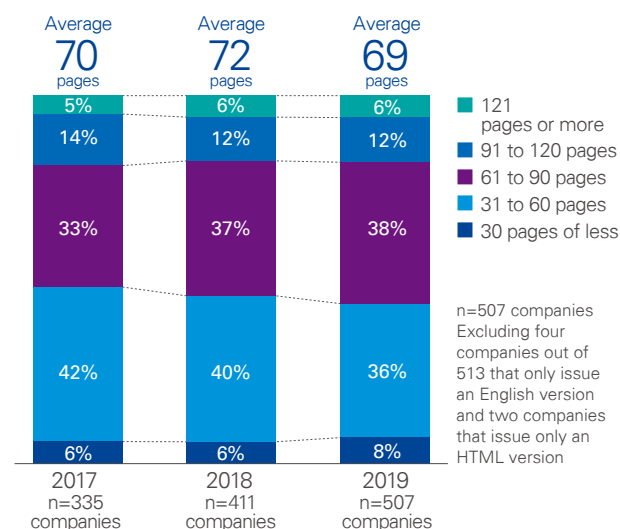
The number of companies using the title “integrated report” increased by 76 over the previous year to 258, setting another all-time high, as in the previous year. This is likely the result of an ongoing trend for companies that had issued reports in the past under a different name to change the name to “integrated report” and the large number of companies issuing integrated reports for the first time to use the name “integrated report.”

KPMG believes that greater awareness of integrated reporting among management and investors explains the increased use of the title “integrated report.”



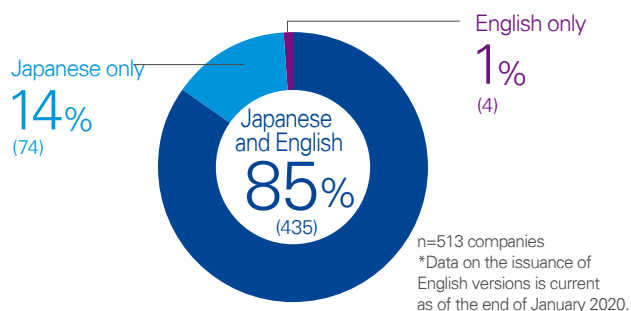
Page volume

The average number of pages decreased slightly over the previous year to 69 pages. However, there were fewer reports of 60 pages or less, showing a trend toward reports that are 61 to 90 pages long, rather than a simplification of reports.



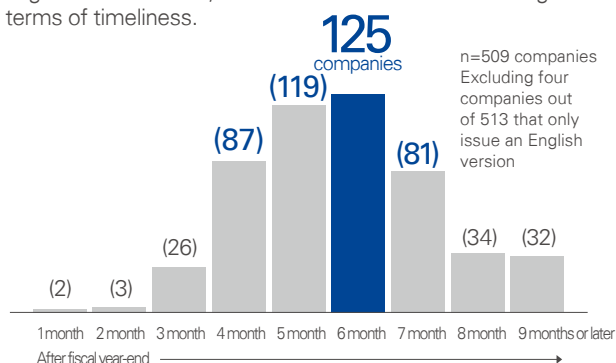
Issuance of English version

As in 2018, over 80% of companies published their reports in both Japanese and English.



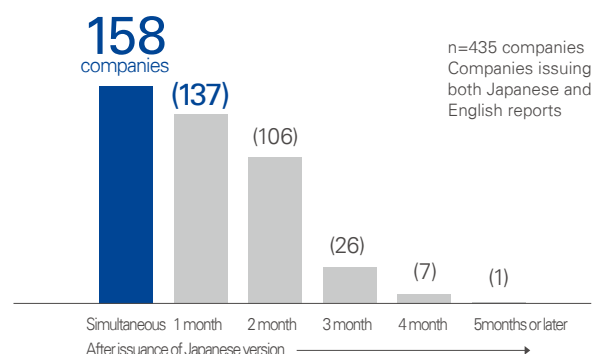
Timing of issuance (Japanese version)

Most companies issued their report six months after their fiscal year ended. There was a trend for more companies to take more time to issue the reports so that they could augment the content, but there are still issues remaining in terms of timeliness.



Timing of issuance (English version)

As in other years, the greatest number of companies issued Japanese and English versions at the same time. This is a sign that companies are trying to provide information equitably to readers both in and outside Japan.



Dawn of “Digital Reporting 2.0”

Much progress has been made with digital reporting (corporate reports utilizing digital technology) in the financial reporting field, with technology playing a larger role in corporate reporting every year. Thanks to a growing need for non-financial information in corporate assessments in recent years and advances in technology such as big data and machine learning, we are likely standing at the start of a new era, which we have dubbed “Digital Technology 2.0.”

In this brief article, I consider advances in digital reporting from three perspectives.

First perspective

Digitization and automation of report preparation

Improving efficiency via automation is a perennial issue for companies. Automating computer operations through Robotic Process Automation (RPA) has been getting attention in recent years as one solution to this. Using RPA to automate the routine, repetitive operations for preparing reports, such as downloading information from the backbone system, compiling large amounts of data and transcribing figures, can reduce work time.

However, the real obstacle to automation is that data is partially optimized for each system, rather than optimized for the company overall.

This can be resolved with data management that ensures interoperability of data across different systems. Introducing a mechanism for managing data for disclosure, called a disclosure management system (DMS), can align the data compilation, accumulation, analysis and reporting process to improve the efficiency of operations.

Second perspective

Integrated digital reporting, including non-financial information

In financial reporting, information is digitized and tags are added so that computers can discriminate between the data, as with EDINET in securities reports. This results in a mechanism that offers ease of access for all. By designating the tag for the information, they want, users can obtain corporate data and freely compare and compile data.

This access to financial information is supported by “financial accounting,” a gauge for evaluating companies that is become increasingly standardized globally, and the technology eXtensible Business Report Language (XBRL), which is for sharing financial information electronically. In recent years, there have been signs of progress similar to that in the financial field in the non-financial reporting field,

as well. The Global Reporting Initiative (GRI) and Climate Disclosure Standards Board (CDSB) released taxonomies premised on the use of XBRL, and several companies provide digital reporting using these. There are similar developments at the Sustainability Accounting Standards Board (SASB), and various standard organizations are pursuing digital reporting based on these frameworks.

However, the standard organizations release their own taxonomies, and their definitions of matters for disclosure are not necessarily consistent across the standards. For this reason, neither the companies nor the data users can maximize the benefits of digital reporting.

Resolving this requires that the vocabulary for non-financial information be standardized at the same level as financial accounting. We anticipate progress in forming consensus among stakeholders, including those organizations that set standards for non-financial reporting.

Third perspective

Trends in evaluating companies using AI technology

Sophisticated text mining functions that use AI are making it possible to collect information on companies from vast amounts of text data available on the Internet and assess companies with that information.

A quants management company based in the UK has launched a service in which it uses AI to automatically assess information on companies that it compiles from news media sites that are updated daily, in addition to data from multiple ESG assessment institutions, and uses the results to provide an ESG score for companies. Even in Japan, there are corporate assessment sites that use an AI-powered evaluation system to automatically analyze information released by companies on their websites and calculate an ESG score.

These corporate evaluations using AI technology are still in their early days, but there is certainly a chance that empirical research on the correlation with corporate value and further technological progress will firmly establish this as a new method for corporate assessment.

I think that when we have a world like this Digital Reporting 2.0, the approach to corporate reporting and the roles of people involved in it will change significantly. At that point, we will know that we have arrived in an era in which putting integrated thinking into practice significantly affects corporate value.

Katsunao Hikiba

Board of Directors advocating “Statement of Purpose”

Many Japanese companies value the spirit behind their founding and their company’s creed, and this is no doubt one of the main factors behind the success of many of the world’s longest-lived companies. However, can Japanese companies explain this enough and obtain understanding?

Many shareholders are increasing their investments in companies that are able to achieve sustainable value by making social contributions. Companies need to explain, from a position of management responsibility, how they look at resolving issues shared by society overall and their approach to contributions, as well as how these perceptions are reflected in devising and pursuing their long-term strategies.

Professor Robert Eccles, who has written many books, including *The Integrated Reporting Movement*, recommends that a company’s board take responsibility for concisely summing up a Statement of Purpose in a few pages of the integrated report in order to both improve the quality of the integrated report and promote action that contributes to a sustainable society.

The Statement of Purpose should have the following elements:

(1) a clear statement of the company’s purpose; (2) measures to harmonize social accountabilities and the company’s own commercial success; (3) identification of stakeholders that are critical to long-term value creation and sustainability; (4) a clear explanation of why those stakeholders are critical; and (5) the timeframe the company uses in evaluating its strategy and long-term capital allocation choices.

It is essential that the board express a clear commitment in light of the responsibilities entrusted to them. Having all directors sign the Statement is meaningful.

If the company’s purpose is laid out in integrated reports in this way, readers can depict the various objectives set by the company, the sustainable creation of social value and the link with those results over a long-term timeframe.

Yoshiko Shibasaka

Human capital directly linked to corporate value

There is general agreement that human capital is one of the most important factors affecting corporate value. However, there is still room for improvement in reports on human capital.

Frameworks supporting voluntary reports, such as IIRC, SASB and GRI have positioned human capital as the key element and encouraged explanations. Moreover, there are many references to “human assets” even in integrated reports. However, even if human capital is discussed in integrated reports, it is often limited to an explanation of “measures.”

From about 2017, the Conference of Institutional Investors (CII), a group of institutional investors in the US, and Human Capital Management Coalition (HCM Coalition) have been actively issuing papers with recommendations to the US Securities and Exchange Commission (SEC) that the disclosure of information on human capital be augmented and pointing to the responsibility of Boards of Directors in enhancing human capital.

In August 2019, the SEC proposed revisions to rules to require companies to report not only the number of employees, as the rules currently mandate, but provide additional information on human capital, which has a major impact on corporate value.

Going forward, the revisions will be finalized, with reference to the comments that the SEC received, but companies will have to report information that they deem “material.” The information requested is expected to be as follows:

(1) the number and types of employees (fulltime, part-time, seasonal, etc.); (2) indicators of stable employment (such as turnover); (3) annual training time per employee; (4) human capital productivity; (5) information on measures taken to hire and promote talented employees; and (6) targets related to human capital, progress toward achieving these goals, and management’s actions.

Going forward, companies will be expected to report on the strengths of their human capital and their specific indicators for these strengths, in light of their correlation with sustainable improvement to corporate value.

Yoshiko Shibasaka

SEC website

For those browsing online, please click the QR code



Expectations for consistency between standards for non-financial information

Corporate Reporting Dialogue (CRD), convened by the International Integrated Reporting Council (IIRC) with the aim of supporting more comparable integrated corporate reporting, launched a 2 year project called the Better Alignment Project (the Project) in November 2018.

The Project will release a report every year, and has issued the first report in September 2019. The first-year report focused on the comparison between the standards issued by the organizations participating in the CRD that set standards on non-financial information (CDP, CDSB, GRI, IIRC, SASB) with the disclosure principles, recommended disclosures and illustrative example metrics issued by the Task Force on Climate-related Financial Disclosures (TCFD). The first year report also reflected the comments received in the consultation held in 2019 as well as the results of the roundtable discussions held in 12 cities around the world, including Tokyo.

These results pointed to an overall consistency and compatibility among the standards and frameworks.

The numerous standards and frameworks for non-financial information has led to confusion among not only to the report preparers, but also to the users. This has led to calls for greater consistency and unification among the standards and frameworks. As a result, apart from the Better Alignment Project, many other projects comparing various standards have also been launched.

The Better Alignment Project is currently considering the agenda for the second year, based on observations made in the first year's report. We hope that the IIRC will exercise even greater leadership and make rapid progress in considering ways to ensure consistency and further understanding of the characteristics of the various standards.

Norie Takahashi

CRD website

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Ensuring faith in non-financial information

As ESG investment picks up, the market's need for non-financial information is increasing.

In March 2019, the FSA released its Principles for the Disclosure of Narrative Information. As a result of the revisions to the Cabinet Ordinance, reforms in the disclosure of non-financial information in securities reports are underway. These revisions require more descriptions of management's awareness of company strategies, the business environment and results, as well as business and other risks.

At the same time, the Questionnaire Survey for Fund Management Organizations on ESG Investment, the results of which were released by METI in December 2019, showed that 97% of respondents use ESG information in making investment decisions, but 85% felt that companies' disclosure of information on ESG was inadequate and impeded their investment decisions.

The disclosure of non-financial information will continue to improve in terms of both quality and quantity, but as its effectiveness increases, investors will demand greater reliability.

In November 2019, the World Business Council for Sustainable Development (WBCSD) and the Institute of Chartered Accountants in England and Wales (ICAEW)

jointly released "A buyer's guide to assurance on non-financial information."

This guide explains the basic matters that companies should understand in terms of non-financial information assurance services and the issues that should be considered to accurately assess assurance operations. The guide also describes the process involved in providing comprehensive assurance for the report overall, which includes validation of internal controls related to information compilation, validation of specific KPIs, assurance of KPIs overall including completeness, and assurance of specific narrative information.

At the same time, this guide points out many issues with the assurance of non-financial information. That said, there is a general public consensus emerging that ESG is an essential element in creating sustainable value, and thus disclosure of non-financial information and assurance services will steadily progress through trial and error.

Hiromasa Niinaya

WBCSD website

For those browsing online, please click the QR code



Climate-related disclosure premised on an assessment of financial impact

The Task Force on Climate-related Financial Disclosure (TCFD) released its final report on the disclosure of financial information related to climate change in June 2017, over two years ago. Japan, where over 200 companies and institutions approved the TCFD, is TCFD's biggest supporter.

Of the companies in the Nikkei 225 Index covered in our survey on integrated reporting, 102 companies are the supporters of TCFD (as of December 31, 2019).

A survey of disclosure by these companies in line with TCFD recommendations showed that 67% of companies mentioned in their integrated report that they support TCFD and 43% of companies disclosed some kind of information in line with TCFD recommendations. The information most commonly disclosed in line with TCFD recommendations was climate-related risk and opportunities, at 38%.

Efforts to address climate change risks are picking up speed markedly. In Japan, METI released the TCFD guidance in December 2018, and established a TCFD Consortium by leaders in industry and academia in 2019. The Consortium then released green investment guidance on the use of climate-related

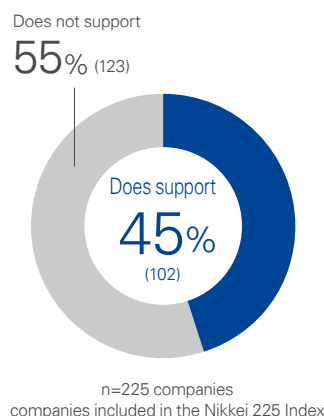
information for investors. Encouraged by these initiatives, we expect that more companies will disclose climate change-related information going forward.

For most companies, it is clear that climate change risks should be seen as a management issue, similar to other material risks. CSR departments and environmental departments have long pursued activities addressing climate change, but now they must elevate this issue and coordinate with departments in charge of finance and risk management to take action. Management is taking the central role in these initiatives, with boards of directors providing supervision. As such, we expect companies to build appropriate governance and make a company-wide commitment to stakeholders.

Management must take responsibility to sincerely convey information that helps people assess the financial impact, such as information on governance of climate-related risks and opportunities, the validity of the forecasted scenarios, and the effectiveness of the decision-making process.

Shunji Kato, Sumika Hashimoto

Figure 1
Companies in the Nikkei 225 that are supporters of TCFD (as of December 31, 2019)



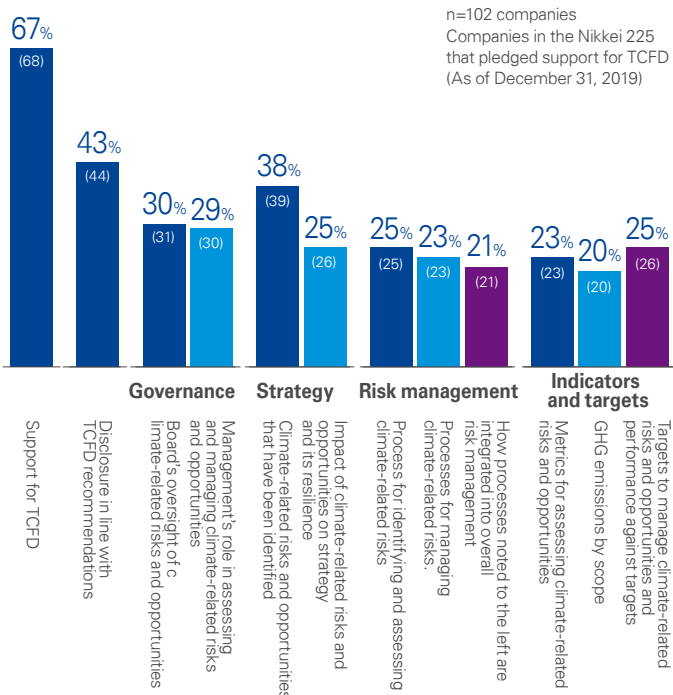
TCFD website

For those browsing online, please click the QR code



() : Number of companies

Figure 2
Disclosure in line with TCFD recommendations in integrated reports (by content)



List of Nikkei 225 companies as of October 2019

| | | |
|---|--|--|
| ADVANTEST CORPORATION | Kirin Holdings Company,Limited | SCREEN Holdings Co.,Ltd. |
| AEON CO.,LTD. | Kobe Steel, Ltd. | SECOM CO.,LTD. |
| AGC Inc. | KOMATSU LTD. | SEIKO EPSON CORPORATION |
| Ajinomoto Co.,Inc. | KONAMI HOLDINGS CORPORATION | Sekisui House, Ltd. |
| ALPS ALPINE CO., LTD. | KONICA MINOLTA, INC. | Seven & i Holdings Co.,Ltd. |
| AMADA HOLDINGS CO.,LTD. | KUBOTA CORPORATION | SHIMIZU CORPORATION |
| ANA HOLDINGS INC. | KURARAY CO.,LTD. | Shin-Etsu Chemical Co.,Ltd. |
| Aozora Bank,Ltd. | KYOCERA CORPORATION | Shinsei Bank, Limited |
| Asahi Group Holdings, Ltd. | Kyowa Kirin Co.,Ltd. | Shionogi & Co.,Ltd. |
| ASAHI KASEI CORPORATION | M3, Inc. | Shiseido Company,Limited |
| Astellas Pharma Inc. | Marubeni Corporation | Showa Denko K.K. |
| BANDAI NAMCO Holdings Inc. | Maruha Nichiro Corporation | SKY Perfect JSAT Holdings Inc. |
| BRIDGESTONE CORPORATION | MARUI GROUP CO.,LTD. | SoftBank Group Corp. |
| CANON INC. | MATSUI SECURITIES CO.,LTD. | Sojitz Corporation |
| CASIO COMPUTER CO.,LTD. | Mazda Motor Corporation | Sompo Holdings, Inc. |
| Central Japan Railway Company | Meiji Holdings Co., Ltd. | SONY CORPORATION |
| Chubu Electric Power Company,Inc. | MINEBEA MITSUMI Inc. | Sony Financial Holdings Inc. |
| CHUGAI PHARMACEUTICAL CO.,LTD. | Mitsubishi Chemical Holdings Corporation | SUBARU CORPORATION |
| Citizen Watch Co., Ltd. | Mitsubishi Corporation | SUMCO CORPORATION |
| COMSYS Holdings Corporation | Mitsubishi Electric Corporation | SUMITOMO CHEMICAL COMPANY,LIMITED |
| Concordia Financial Group,Ltd. | Mitsubishi Estate Company,Limited | SUMITOMO CORPORATION |
| Credit Saison Co.,Ltd. | Mitsubishi Heavy Industries, Ltd. | Sumitomo Dainippon Pharma Co., Ltd. |
| CyberAgent, Inc. | Mitsubishi Logistics Corporation | Sumitomo Electric Industries, Ltd. |
| Dai Nippon Printing Co.,Ltd. | MITSUBISHI MATERIALS CORPORATION | SUMITOMO HEAVY INDUSTRIES, LTD. |
| Dai-ichi Life Holdings,Inc. | MITSUBISHI MOTORS CORPORATION | Sumitomo Metal Mining Co.,Ltd. |
| DAIICHI SANKYO COMPANY,LIMITED | Mitsubishi UFJ Financial Group,Inc. | Sumitomo Mitsui Financial Group, Inc. |
| DAIKIN INDUSTRIES, LTD. | MITSUMI & CO.,LTD. | Sumitomo Mitsui Trust Holdings,Inc. |
| DAIWA HOUSE INDUSTRY CO.,LTD. | Mitsui Chemicals,Inc. | Sumitomo Osaka Cement Co.,Ltd. |
| Daiwa Securities Group Inc. | Mitsui E&S Holdings Co., Ltd. | Sumitomo Realty & Development Co.,Ltd. |
| DeNA Co.,Ltd. | Mitsui Fudosan Co.,Ltd. | SUZUKI MOTOR CORPORATION |
| Denka Company Limited | Mitsui Mining & Smelting Company,Limited | T&D Holdings,Inc. |
| DENSO CORPORATION | Mitsui O.S.K. Lines,Ltd. | TAIHEIYO CEMENT CORPORATION |
| DENTSU GROUP INC. | Mizuho Financial Group, Inc. | TAISEI CORPORATION |
| DIC Corporation | MS&AD Insurance Group Holdings, Inc. | TAIYO YUDEN CO., LTD. |
| DOWA HOLDINGS CO.,LTD. | NEC Corporation | TAKARA HOLDINGS INC. |
| East Japan Railway Company | NGK INSULATORS, LTD. | Takashimaya Company, Limited |
| EBARA CORPORATION | NH Foods Ltd. | Takeda Pharmaceutical Company Limited |
| Eisai Co.,Ltd. | NICHIREI CORPORATION | TDK CORPORATION |
| FamilyMart Co., Ltd. | NIKON CORPORATION | TEIJIN LIMITED |
| FANUC CORPORATION | Nippon Electric Glass Co.,Ltd. | TERUMO CORPORATION |
| FAST RETAILING CO.,LTD. | NIPPON EXPRESS CO.,LTD. | The Chiba Bank, Ltd. |
| FUJI ELECTRIC CO.,LTD. | NIPPON KAYAKU CO.,LTD. | The Japan Steel Works, Ltd. |
| FUJIFILM Holdings Corporation | Nippon Light Metal Holdings Company,Ltd. | The Kansai Electric Power Company,Inc. |
| Fujikura Ltd. | Nippon Paper Industries Co.,Ltd. | THE SHIZUOKA BANK, LTD. |
| FUJITSU LIMITED | Nippon Sheet Glass Company,Limited | The Yokohama Rubber Company,Limited |
| Fukuoka Financial Group,Inc. | NIPPON STEEL CORPORATION | TOBU RAILWAY CO.,LTD. |
| Furukawa Electric Co., Ltd. | NIPPON SUISAN KAISHA, LTD. | TOHO CO.,LTD. |
| GS Yuasa Corporation | NIPPON TELEGRAPH & TELEPHONE CORPORATION | Toho Zinc Co.,Ltd. |
| HASEKO Corporation | Nippon Yusen Kabushiki Kaisha | TOKAI CARBON CO.,LTD. |
| HINO MOTORS, LTD. | Nissan Chemical Corporation | Tokio Marine Holdings, Inc. |
| Hitachi Construction Machinery Co.,Ltd. | NISSAN MOTOR CO.,LTD. | Tokuyama Corporation |
| Hitachi Zosen Corporation | NISSHIN SEIFUN GROUP INC. | Tokyo Electric Power Co. Holdings,Inc. |
| Hitachi, Ltd. | Nisshinbo Holdings Inc. | Tokyo Electron Limited |
| HONDA MOTOR CO.,LTD. | NITTO DENKO CORPORATION | TOKYO GAS CO.,LTD. |
| Idemitsu Kosan Co.,Ltd. | Nomura Holdings, Inc. | Tokyo Tatemono Co.,Ltd. |
| IHI Corporation | NSK Ltd. | TOKYU CORPORATION |
| INPEX CORPORATION | NTN CORPORATION | Tokyu Fudosan Holdings Corporation |
| Isetan Mitsukoshi Holdings Ltd. | NTT DATA CORPORATION | TOPPAN PRINTING CO.,LTD. |
| ISUZU MOTORS LIMITED | NTT DOCOMO,INC. | TORAY INDUSTRIES, INC. |
| ITOCHU Corporation | OBAYASHI CORPORATION | TOSOH CORPORATION |
| J.FRONT RETAILING Co.,Ltd. | Odakyu Electric Railway Co.,Ltd. | TOTO LTD. |
| JAPAN POST HOLDINGS Co.,Ltd. | Oji Holdings Corporation | Toyo Seikan Group Holdings, Ltd. |
| JAPAN TOBACCO INC. | Ok Electric Industry Company,Limited | TOYOBO CO.,LTD. |
| JFE Holdings, Inc. | OKUMA Corporation | TOYOTA MOTOR CORPORATION |
| JGC HOLDINGS CORPORATION | OLYMPUS CORPORATION | TOYOTA TSUSHO CORPORATION |
| JTEKT Corporation | OMRON Corporation | Trend Micro Incorporated |
| JXTG Holdings, Inc. | OSAKA GAS CO.,LTD. | Ube Industries,Ltd. |
| KAJIMA CORPORATION | Otsuka Holdings Co.,Ltd. | UNITIKA LTD. |
| Kao Corporation | PACIFIC METALS CO.,LTD. | West Japan Railway Company |
| Kawasaki Heavy Industries, Ltd. | Panasonic Corporation | YAMAHA CORPORATION |
| Kawasaki Kisen Kaisha, Ltd. | Rakuten,Inc. | Yamaha Motor Co.,Ltd. |
| KDDI CORPORATION | Recruit Holdings Co.,Ltd. | YAMATO HOLDINGS CO.,LTD. |
| Keio Corporation | Resona Holdings, Inc. | YASKAWA Electric Corporation |
| Keisei Electric Railway Co.,Ltd. | RICOH COMPANY,LTD. | Yokogawa Electric Corporation |
| KIKKOMAN CORPORATION | SAPPORO HOLDINGS LIMITED | Z Holdings Corporation |

List of Japanese Companies Issuing Integrated Report in 2019

| | | | |
|--|--|---|--|
| <p> ADVANEX INC. ADVANTEST CORPORATION AEON CO.,LTD. AEON Financial Service Co.,Ltd. AEON Mall Co.,Ltd. AGC Inc. AHRESTY CORPORATION AIR WATER INC. AIRDO Co.,Ltd. AISIN SEIKI CO.,LTD. Ajinomoto Co.,Inc. Alfresa Holdings Corporation ALPS ALPINE CO., LTD. AMITA HOLDINGS CO.,Ltd. AMUSE INC. ANA HOLDINGS INC. ANEST IWATA Corporation ANRITSU CORPORATION AOKI Holdings Inc. Aozora Bank,Ltd. ARATA CORPORATION Asahi Group Holdings, Ltd. Asahi Holdings,Inc. ASAH KASEI CORPORATION ASKA Pharmaceutical Co.,Ltd. Astellas Pharma Inc. AUTOBACS SEVEN CO.,LTD. Azbil Corporation BANDAI NAMCO Holdings Inc. Benesse Holdings, Inc. BIC CAMERA INC. BRIDGESTONE CORPORATION BROTHER INDUSTRIES, LTD. C.I. TAKIRON Corporation Calbee,Inc. CANON INC. CAPCOM CO.,LTD. Carlit Holdings Co., Ltd. CASIO COMPUTER CO.,LTD. Chiba University Chubu Electric Power Company,Inc. CHUGAI PHARMACEUTICAL CO.,LTD. CKD Corporation CMK CORPORATION COMANY INC. Concordia Financial Group,Ltd. COSMO ENERGY HOLDINGS COMPANY,LIMITED CyberAgent, Inc. Dai Nippon Printing Co.,Ltd. Dai Nippon Toryo Company,Limited DAIBIRU CORPORATION Daicel Corporation DAI-DAN CO.,LTD. DAIFUKU CO.,LTD. Dai-ichi Life Holdings,Inc. DAIICHI SANKYO COMPANY,LIMITED DAIKEN CORPORATION DAIKIN INDUSTRIES, LTD. Daio Paper Corporation DAITO TRUST CONSTRUCTION CO.,LTD. DAIWA HOUSE INDUSTRY CO.,LTD. Daiwa Securities Group Inc. Denka Company Limited DENSO CORPORATION Dentsu Group Inc. </p> | <p> Development Bank of Japan Inc. Dexcelers Corporation DIC Corporation DKS Co. Ltd. DUSKIN CO.,LTD. DyDo GROUP HOLDINGS,INC. DYNAM JAPAN HOLDINGS Co.,Ltd. E+J Holdings Inc. East Nippon Expressway Company Limited EBARA CORPORATION EBARA Foods Industry,Inc. Echo Electronics Industry Co.,Ltd. Eisai Co.,Ltd. Electric Power Development Co.,Ltd. FamilyMart Co., Ltd. FANCL CORPORATION FISCO Ltd. FP CORPORATION Freund Corporation FUJI CORPORATION FUJI ELECTRIC CO.,LTD. FUJI OIL HOLDINGS INC. Fuji Pharma Co.,Ltd. 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IHI Corporation IINO KAIUN KAISHA, LTD. </p> | <p> INPEX CORPORATION ISEKI&CO.,LTD. Isetan Mitsukoshi Holdings Ltd. ITO EN,LTD. ITOCHU Corporation ITOCHU ENEX CO.,LTD. ITOCHU Techno-Solutions Corporation IWATANI CORPORATION J.FRONT RETAILING Co.,Ltd. JACCS CO.,LTD. Japan Airlines Co.,Ltd. Japan Asia Group Limited Japan Exchange Group, Inc. Japan Petroleum Exploration Co.,Ltd. JAPAN POST BANK Co.,Ltd. JAPAN POST HOLDINGS Co.,Ltd. JAPAN POST INSURANCE Co.,Ltd. JCR Pharmaceuticals Co.,Ltd. JEOL Ltd. JFE Holdings, Inc. JGC HOLDINGS CORPORATION J-OIL MILLS, INC. Joshin Denki Co.,Ltd. JSP Corporation JSR CORPORATION JTEKT Corporation JUKI CORPORATION JVCKENWOOD Corporation JXTG Holdings, Inc. KAGA ELECTRONICS CO.,LTD. KAGOME CO.,LTD. KAJIMA CORPORATION KAKEN PHARMACEUTICAL CO.,LTD. KANAMOTO CO.,LTD. KANDENKO CO.,LTD. KANEMATSU CORPORATION KANEMATSU ELECTRONICS LTD. Kanro Inc. KANSAI PAINT CO.,LTD. Kao Corporation Kawasaki Heavy Industries, Ltd. Kawasaki Kisen Kaisha, Ltd. 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Morinaga Milk Industry Co.,Ltd. MS&AD Insurance Group Holdings, Inc. Murata Manufacturing Co., Ltd. Nabtesco Corporation NAGASE&CO., LTD. Nankai Electric Railway Co.,Ltd. </p> |
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| NH Foods Ltd. | PENTA-OCEAN CONSTRUCTION CO.,LTD. | SUMITOMO HEAVY INDUSTRIES, LTD. | Tokyo Century Corporation |
| NHK SPRING CO.,LTD. | PIGEON CORPORATION | SUMITOMO LIFE INSURANCE COMPANY | TOKYO DOME CORPORATION |
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| NIIGATA UNIVERSITY | Resona Holdings, Inc. | Sumitomo Rubber Industries, Ltd. | TOKYU CORPORATION |
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| NIKKO CO.,LTD. | ROHM Co., Ltd. | SUZUKEN CO.,LTD. | TOMY COMPANY,LTD. |
| NIKON CORPORATION | ROYAL HOLDINGS Co., Ltd. | SUZUKI MOTOR CORPORATION | TOPCON CORPORATION |
| NIPPON CHEMI-CON CORPORATION | S.T.CORPORATION | SYSMEX CORPORATION | TOPPAN FORMS CO.,LTD. |
| NIPPON CHEMIPHAR CO.,LTD. | SAKATA INX CORPORATION | T&D Holdings,Inc. | TOPPAN PRINTING CO.,LTD. |
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| Nisshinbo Holdings Inc. | SEIKO HOLDINGS CORPORATION | The 77 Bank, Ltd. | TSUMURA & CO. |
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| Nomura Real Estate Holdings,Inc. | SG HOLDINGS CO.,LTD. | The Hiroshima Bank, Ltd. | UNIVERSITY OF FUKUI |
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| OKAYAMA UNIVERSITY | SOHGO SECURITY SERVICES CO.,LTD. | TOA CORPORATION | Yokogawa Electric Corporation |
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| ONO PHARMACEUTICAL CO.,LTD. | Sony Financial Holdings Inc. | TOHO GAS CO.,LTD. | |
| ORIX CORPORATION | SUBARU CORPORATION | | |

Afterword

In the five years through 2018, we continuously observed trends in integrated reporting in Japan. In preparing for the survey of 2019 reports, with over 500 Japanese companies expected to issue an integrated report, we once again discussed the role that this survey should play. As Professor Eccles mentioned at the beginning of this report (“Message from global thought leaders” on page 1), in a paper on a survey comparing the quality of integrated reporting in 10 countries, released in March 2019, the quality of Japan’s representative integrated reports was categorized as “low”—and this was a major catalyst for this discussion.

As a result, we concluded that clarifying whether reports had narratives based on the relationship with corporate value—a characteristic of integrated reports—and described actual conditions in a way that ensured consistency in the overall report is our contribution and role in not only improving the quality of integrated reports, but also raising the sustainable value of companies. Accordingly, we revised the survey items and methods.

The survey covered the companies included in the Nikkei 225. Instead of assigning individual survey team members to read the same sections in all the reports, we adopted a method whereby each team member thoroughly read reports of a company. Repeated discussions to redress gaps in each member’s assessments and the sharing of information on points that the members noticed made this a process that was essential to the survey.

With non-financial elements accounting for 80% or more of a company’s market value, we have seen institutional changes ensuring that non-financial information that is directly related to corporate value is included in securities reports. We are confident that initiatives to be introduced in the fiscal year ending March 2020 will help to improve the quality of corporate reporting and achieve a fair and transparent market. To this end, we think that we need to have a good grasp of conditions before the reforms, and for that reason we also surveyed the content of the securities reports of the Nikkei 225 companies.

Integrated reports and securities reports use different means of expression, but since companies are single entities, the two types of reports should always be telling the same underlying story throughout. Reports should show the result of this kind of integrated thinking in order to demonstrate how companies will utilize the finite resources entrusted to them by society and fulfill the responsibilities they have been entrusted with.

We are grateful that this survey has been useful to so many people over the years. The range of feedback that we have received has been encouraging, and we are deeply grateful.

We look forward to being in dialogue with the readers of this survey report.

March 2020

KPMG Japan
Integrated Reporting Center of Excellence



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About KPMG Japan Integrated Reporting CoE

In response to the growing demand for the better business reporting that the integrated report represents, the CoE was formed in 2012 by professionals across member firms of KPMG in Japan.

Making full use of KPMG's research expertise in corporate reporting and its practical experience, the CoE seeks to contribute to the reliability and transparency of capital markets and support better communication between companies and capital markets by contributing to the advancement of corporate reporting.



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