April 28, 2016

Comments on the public consultation questions in the "Phase 1 Report" issued by the Task Force on Climate-Related Financial Disclosures

Japanese Bankers Association

We, the Japanese Bankers Association ("JBA"), would like to express our gratitude for this opportunity to comment on the "Phase 1 Report" issued on April 1, 2016 by the Task Force on Climate-Related Financial Disclosures ("TCFD").
We respectfully expect that the following comments will contribute to your further discussion.

[Our responses to public consultation questions]

COVERAGE AND AUDIENCES 1. Which types of nonfinancial firms should any disclosure recommendations cover? List in order of importance.

(Our response [from the perspective of users of disclosures])

(i) Companies related to energy (including power)
(ii) Steel companies
(iii) Electricity companies
(iv) Information/communication companies
(v) Global companies (including the above)
* Particularly listed companies, in all of the above cases

(Basis, etc. [from the perspective of users of disclosures])

・Given that climate change is an event taking place on a global level, it would be important, not only for those companies with high greenhouse gas emissions, to disclose activities conducted to adapt to climate change, such as, in particular, identification of and approaches to climate change (including disaster) impacts.

・Listed companies hold a considerable amount of liabilities/capital and thus have a significant impact on society. Further, many of listed companies are already making a disclosure as part of their IR activities. Disclosures of efforts for addressing climate changes are also desired.

COVERAGE AND AUDIENCES
3. Which users in the financial sector should be considered as the target audience?

(Our response [from the perspective of users of disclosures])

- Those entities that would have an influence on decision-making when acquiring risk-weighted assets (e.g. banks, asset managers, securities companies (sell side), life and non-life insurers, stock exchanges, providers of various indices, fund asset managers and rating agencies) should be considered as the target audience.

(Basis, etc. [from the perspective of users of disclosures])

- The importance of climate-related financial disclosures will increase for individual companies to assess climate-related risks that have effects on lending, investments in securities and insurance, etc.

CLIMATE-RISK DIMENSION
4. For nonfinancial preparers of climate risk and opportunity information, what are the top three key concerns that you would like the Task Force to keep in mind in making our recommendations?

(Our response [from the perspective of users of disclosures])

(i) Lack of reliable data, including region-level events with certain scientific basis that could be caused by climate change (e.g. disaster) and the probability of such events.

(ii) Giving consideration to overlap between existing disclosure documents and additional costs incurred by disclosures

(iii) Lack of understanding of companies' management and responsible personnel with respect to climate change which is the underlying subject of the disclosure

(Basis, etc. [from the perspective of user of disclosures])

- The preconditions for disclosure are enhancement in companies' knowledge and understanding of climate change and availability of data with certain reliability regarding events caused by climate change (e.g. country-by-country disaster mapping data and prospect of such disaster), which will enable to link such information with individual companies' business. It would be important to accumulate and disclose global climate change data in parallel with corporate disclosures. Further, it is necessary not to give rise to any tasks overlapping with the process for preparing existing disclosure documents.

- In addition, the Task Force should consider focusing on simplicity of disclosed information and not to undermine the growth of companies and take into account the timeline.

CLIMATE-RISK DIMENSION 5. For users of climate risk and opportunity information, what are five specific points of information that you wish to secure?

(Our response [from the perspective of <u>users</u> of disclosures])

(i) The result and target of greenhouse gas (GHG) emissions and methods to achieve the target
(ii) Information of assets held with respect to fossil fuels
(iii) Status of business relationships with companies using fossil fuels, etc.
(iv) Business risk associated with the concern specified in our response (i) in the above question 4 (disclosure of regions/businesses that may be affected by climate change)
(v) Possibility of business opportunities, such as provision of products/services that enable adaptation to environment resulting from climate change

(Basis, etc. [from the perspective of <u>users</u> of disclosures])

- Although current disclosure tends to focus on mitigation actions (reduction of CO_2), it would be important for companies' decision-making to expand the disclosure to include adaptation to environment resulting from climate change.

CLIMATE-RISK DIMENSION 7. "Transition Risk" in terms of climate is an evolving term. How would you define this risk? What specific disclosures would help measure it?

(Our response [from the perspective of <u>users</u> of disclosures])

- Definition:
  (i) Impairment of asset values due to progress of decarbonization efforts
  (ii) Changes in the industry structure due to technical innovation
  (iii) Introduction of, and changes to, policies that promote the above

- Risk measurement:
  (i) Information on carbon resource holdings
  (ii) Information on sales and operating income relating to carbon, and qualitative information on technology-related movement and development
  (iii) Prospect of impacts arising from changes in policies, laws and taxation

(Basis, etc. [from the perspective of users of disclosures])

- Specific examples of risks that may materialize include: (a) impairment of asset values due to decreased prices, or disvaluation, of carbon resources; (b) loss of competitiveness as traditional technology becomes obsolete due to technical innovation; (c) extinguishment of traditional markets due to emergence of alternative raw materials/products having economic rationality; and (d) deterioration of debt payment capability due to loss in investments as the government’s change of policies, laws and taxation for decarbonizing purposes results in undermining sustainable performance and stock prices of relevant corporate groups decrease.

CLIMATE-RISK DIMENSION 8. Which three sectors do you think most exposed to climate risks? For these sectors, how are physical, transition, and liability risks best measured and reported?

(Our response [from the perspective of users of disclosures])

- Sectors: Agriculture sector, reinsurance sector and carbon resource upstream sector
- Reporting method: Periodic reporting that addresses those points specified in our response to the above question 5

(Basis, etc. [from the perspective of users of disclosures])

- More specifically, the agriculture sector which is directly exposed to climate change risks and natural disaster risks; reinsurance companies which undertake insurance of risks of unexpected, large natural disaster; and the carbon resource upstream sector which is exposed to a long-term risk of impairment of carbon assets, are considered to be most exposed to climate risks.

CLIMATE-RISK DIMENSION 9. How should the task force consider the challenge of aggregate versus sector-specific

climate-related financial risks and opportunities?

(Our response [from the perspective of <u>users</u> of disclosures])

- Given that climate change broadly impacts nonfinancial and financial sectors as a whole through supply chain, it is an ideal approach to consider climate-related risks and opportunities on an aggregate basis.

(Basis, etc. [from the perspective of <u>users</u> of disclosures])

- The sector-specific approach should not be taken also from the perspective of promoting disclosure efforts across sectors.

CLIMATE-RISK DIMENSION

10. Is there a role for scenario and sensitivity analysis—for the nonfinancial and/or financial sectors? Please provide three specific examples.

(Our response [from the perspective of <u>users</u> of disclosures])

- It is considered to be useful.
- Specific examples:

(i) Calculation of the amount of maximum loss arising from climate events with a low possibility

(ii) Calculation of the amount of asset impairment based on the price scenario and sensitivity analysis of carbon resource assets

(iii) Analysis of changes in investment return and debt payment capability arising from, among other things, stock price changes caused by the above (i) or (ii)

(Basis, etc. [from the perspective of <u>users</u> of disclosures])

- The scenario and sensitivity analysis is considered to be useful in measuring direct impacts, and indirect impacts on the financial sector, from physical risks and transition risks when materialized.

ASSET-CLASS DIMENSION

11. Which are the key asset classes that require initial attention? Are there any gaps that we should focus on? Within this, what are the top two priorities for action?

(Our response [from the perspective of <u>users</u> of disclosures])

- The asset class that requires the initial attention would be carbon resource assets

・A gap that should be focused on would be a difference between the assumptions (price, in particular) of the amount of assets recognized and the current market conditions.

・The top two priorities for action would be: (i) estimation of unrealized gain/impairment based on a scenario of a certain long-term price; and (ii) assessment of financial resilience by sensitivity analysis.

(Basis, etc. [from the perspective of <u>users</u> of disclosures])

・Where the value of carbon resource assets is expected to impair due to long-term transition risks, identifying unrealized gain and impairment under the assumption of a certain price scenario/timeline will enable measurement of risk factors of long-term business performance.

INTERMEDIARY/USER SCOPE 12. Considering the breadth of services the capital supply chain provides, please provide up to three examples of leading work (research or other) from sell-side brokers' investment recommendations, listing rules of stock exchanges, portfolio management and stewardship examples by fund managers, fund-manager recommendations by consultants, or others we should consider.

(Our response [from the perspective of <u>users</u> of disclosures])

(i) Portfolio Decarbonization Coalition (PDC) by UNEP FI, etc.

An initiative where institutional investors measure and disclose carbon footprints of their investment portfolios and take action to reduce carbon intensity.

(ii) Hermes EOS's initiatives relating to stranded assets and public policies (e.g. Royal Dutch Shell)

(Basis, etc. [from the perspective of <u>users</u> of disclosures])

・Actions taken by institutional investors, etc. through, among other things, climate change engagement (dialogue with purpose) would be an effective measure to promote further disclosures by companies and their behavioral changes in relation to opportunities and risks.

INTERMEDIARY/USER SCOPE 14. How can climate risk information be simply summarized for retail investors? What standards or mechanisms exist for assuring end investors that climate risks and

opportunities have been considered in the way that their savings and investment and pension products have been managed?

(Our response [from the perspective of users of disclosures])

- Possible examples include disclosure of GHG emission weight per the selling price (in U.S. dollars) (CO_2t/$) and accumulation through supply chain.

(Basis, etc. [from the perspective of users of disclosures])

- Disclosure of GHG emissions per the selling price will enable comparison at the time of purchasing products. In addition, accumulation through purchase behavior will enable identification of GHG emissions of overall supply chain.

MACRO SCOPE

15. In conducting macroeconomic analysis, what are the top three key measures of macroeconomic climate risk performance when seeking to measure the extent to which the global economy is transitioning towards net-zero emissions?

(Our response [from the perspective of users of disclosures])

(i) GHG emissions per 1 GDP

(ii) GHG emissions per 1 person

(iii) Carbon-related percentage with respect to fiscal revenue/expenditure and volume of export/import

(Basis, etc. [from the perspective of users of disclosures])

- Since it is not intended to reduce the size of economy itself, it is preferable to use measures per unit, instead of measures on a gross basis.

LOOKING AHEAD

19. What are the key barriers that you believe the Task Force needs to overcome?

(Our response [from the perspective of preparers of disclosures])

- Commenting from the viewpoint of supporting emerging countries, power/manufacturing facilities that emerging countries and small island states can introduce are limited due to constraints in terms of infrastructures, human resources and technology.
- Under the circumstances where each jurisdiction has in place reasonable facilities

appropriate to the level of its economic development and geographical impacts, if it is determined to disclose/assess only those risks associated with the environment, the amount of investments/financing and funding costs relating to development of infrastructures will be affected adversely.

- As a result, there is a concern that the growth curve of emerging countries may be lowered.

(Our response [from the perspective of <u>users</u> of disclosures])

- Collection and maintenance of reliable data, including region-level incidents with certain scientific basis that could be caused by climate change (e.g. disaster) and the probability of such incidents
- There are some cases where those sectors/companies which are unwilling to disclose information have an advantage over those sectors/companies which are actively working on disclosures.

(Basis, etc. [from the perspective of <u>users</u> of disclosures])

- See the basis explained in our comment to the above question 4.
- The Task Force should give consideration to ensure that active information disclosure efforts will not result in negative assessment.

LOOKING AHEAD 20. Is the Task Force focused on the appropriate set of topics for its Phase II work plan?

(Our response [from the perspective of <u>preparers</u> of disclosures])

- In addition to the content of disclosures of climate change risks, the Task Force should consider in Phase II appropriate approaches to quantify climate change risks.

(Basis, etc. [from the perspective of <u>preparers</u> of disclosures])

- Unless there is an appropriate quantification process in place, only working on the content of disclosures of climate change risks could result in misleading disclosures.

LOOKING AHEAD 21. What additional topics should it consider?

(Our response [from the perspective of a <u>preparer</u> of disclosures])

- Commenting from the viewpoint of supporting emerging countries, power/manufacturing facilities that emerging countries and small island states can introduce are limited due to constraints in terms of infrastructures, human resources and technology.
- Under the circumstances where each jurisdiction has in place reasonable facilities appropriate to the level of economic development and geographical impacts, if it is determined to disclose/assess only those risks associated with the environment, the amount of investments/financing and funding costs relating to development of infrastructures will be affected adversely.
- It is our concern that the growth curve of emerging countries may be lowered as a result.

[Other requests, etc.]

OTHER VIEWS Scope and objectives of the Task Force's work (paragraph 3 of page 3 and paragraph 2 of page 4)

(Our comment [from the perspective of a <u>preparer</u> of disclosures])

- In addition to the content of disclosures of climate change risks, the Task Force should consider appropriate approaches to quantify climate change risks by taking into account their feasibility by financial institutions. .
- Particularly for those climate change risks that are highly prioritized, it would be meaningful to present model cases of quantification.

(Basis, etc. [from the perspective of a <u>preparer</u> of disclosures])

- Unless there is an appropriate quantification process in place, only working on the content of disclosures of climate change risks could result in misleading disclosures.
- Discussions on the quantification of climate change risks should not only be investor-oriented but should also take into account the feasibility of financial institutions. Otherwise, it would be unable to realize appropriate disclosures.
- Approaches to measure financial impacts arising from climate change vary across financial institutions in the U.S, Europe and Asia. Comparability of disclosures can be achieved only when a consistent approach is introduced for quantification purposes.

OTHER VIEWS The content of disclosures to be focused on in Phase II with respect to climate change risks of financial institutions (Paragraph 2 of page 5)

(Our comment [from the perspective of <u>preparers</u> of disclosures])

- Impacts of climate-related risks to be disclosed and the granularly of disclosures should be discussed in a prudent manner.
- If disclosures include financial impacts and scenario analysis of climate change, it is our concern that reputational risks may arise with respect to specific industries or portfolios and thereby give rise to confusion in the financial system attributable to climate change risks.

(Basis, etc. [from the perspective of <u>preparers</u> of disclosures])

- Disclosures by financial institutions regarding climate change risks at the entity level or with respect to portfolios may give rise to reputational risks.
- Such disclosures of such climate change risks may result in deterioration of investment/financing assets (assets held by corporations) by financial institutions, which may have adverse effects on the financial system.
- Further, for purposes of mitigating adverse effects on the financial system arising from disclosures, the Task Force should consider excluding existing investment assets from climate change risk disclosures and limiting them to new investments made after the development of guidelines.

OTHER VIEWS The content/approaches of climate-related financial disclosures (Paragraph 1 of page 22)

(Our comment [from the perspective of <u>preparers</u> of disclosures])

- In practice, it is necessary to ensure consistency between disclosures for accounting purposes and disclosures for risk management purposes.
- The Task Force is requested to allow disclosures in a manner that is equivalent to the existing disclosure framework of each jurisdiction so as not to impose undue burdens on preparers of disclosures.

(Basis, etc. [from the perspective of <u>preparers</u> of disclosures])

- It is our understanding that disclosures of the financial impacts of climate change risks are intended to inform investors about the extent of losses that financial institutions may suffer from climate change.

From this viewpoint, the relationship between disclosures of climate change risks and disclosures for accounting purposes (provisioning) is unclear. Consistency between disclosures for risk management purposes and those for accounting purposes (provisioning) should be ensured.

- Provisioning of some cases related to climate change risks may overlap with provisioning of the risk of lawsuits, etc.
- While recommendations of the Task Force will serve as guidelines for voluntary disclosures by private-sector companies, unless disclosures in line with national disclosure standards (e.g. frequency and disclosure method) are permitted, such recommendations will not help promote voluntary disclosures because disclosure burdens on reporting entities will increase.