



Carbon Neutrality Initiative 2024

- Provisional English version -

March 15, 2024

JAPANESE BANKERS ASSOCIATION

Foreword (Announcement of the Carbon Neutrality Initiative 2024)

In 2023, the Act on Promotion of a Smooth Transition to a Decarbonized Growth-Oriented Economic Structure (GX Promotion Act)^[1] was enacted and put into force in Japan. The year saw the country step forward to achieve GX investment of more than 150 trillion yen over the next ten years in the public and private sectors.

In addition, the Leaders' Communiqué at the G7 Hiroshima Summit^[2] and the G7 Finance Ministers and Central Bank Governors' Statement^[3] stated that transition finance has a significant role in advancing the decarbonisation of the economy as a whole, which shows the growth in international understanding regarding the necessity to support the transition efforts of hard-to-abate sectors.

On the other hand, discussions for securing the reliability and effectiveness of transition finance are becoming more important. Along with the progress of such discussions by mainly regulatory authorities and private initiatives, active discussions are also taking place on achieving goals toward the decarbonisation of financial institutions and handling financed emissions that accompany efforts made by the companies receiving investments.

Moreover, in the 28th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP28) held in Dubai, the United Arab Emirates, the participating countries agreed on transitioning away from fossil fuels and recognised the necessity of reducing greenhouse gas emissions by 43% by 2030 (compared to 2019) and 60% by 2035 (compared to 2019) toward achieving carbon neutrality in 2050.

Under the above circumstances and with the increasing expectation of the banking industry being the key financial intermediary, the Japanese Bankers Association (JBA) is engaged in various activities, based on the JBA Carbon Neutrality Initiative (hereinafter referred to as the JBA Initiative). The JBA has reviewed its activities carried out in 2023 and conducted an inventory/revision of the JBA Initiative.

The year 2024 marks the third anniversary of the JBA Initiative, which began in December 2021. The JBA will continue to contribute to the realisation of carbon neutrality and net zero emissions in Japan with various stakeholders, including customers, relevant ministries and agencies, and related economic organisations.

Foreword (December 2021 "Carbon Neutrality Initiative")

In October 2020, the Japanese government declared its pledge to achieve carbon neutrality by 2050 and in April 2021 set its interim target to reduce GHG emissions by 46% from the FY2013 levels by FY2030. In response to the commitments, a number of projects for carbon neutrality are currently being carried out in both public and private sectors in Japan.

At COP26 held in November 2021, global leaders reaffirmed their intent to pursue efforts to limit the temperature increase to 1.5° C in accordance with the Paris Agreement, and agreed to invite further actions over the next 10 years to 2030 (which is being called a “critical decade”), taking into account IPCC’s Sixth Assessment Report⁴.

The JBA believes that it is also an urgent and critical issue for the Japanese banking industry to work on reducing its own GHG emissions and to provide financial support to the economy to achieve a “Just Transition” to carbon neutrality / net zero emissions. There is also increasing international pressure on financial institutions to manage climate-related financial risks, including physical and transition risks that impact their portfolio. Supporting clients’ efforts toward carbon neutrality / net zero emissions is crucial for banks from the viewpoint of not only dealing with climate-related financial risks, but also maintaining the international competitiveness of the Japanese economy.

Against this backdrop, the JBA set out the “Carbon Neutrality Initiative”, which identifies the JBA’s key policies and priorities up to 2030 to further strengthen the efforts of the Japanese banking industry toward achieving carbon neutrality. The JBA also established the Sustainability Promotion Office in July 2021 to foster those initiatives.

For this Initiative, the JBA carried out interviews with key stakeholders including its member banks, companies in hard-to-abate sectors, leading companies actively working toward carbon neutrality and regional companies. The findings and input from the interviewees are reflected in this Initiative.

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Overview of the Carbon Neutrality Initiative

- Achieving carbon neutrality by 2050 is a global commitment by more than 150 countries including Japan, which may bring about a global transformation to the industrial structure and the entire economy as a whole. While such a transformation may provide significant growth opportunities, a disorderly transition to carbon neutrality could also bring about financial risks for banks.
- Against this backdrop, the Carbon Neutrality Initiative provides a foundation for the JBA's policies and actions for a society/economy-wide "Just Transition"⁵ to carbon neutrality. The JBA will continue to review its focus, as necessary.

Objective

Support and achieve a "Just Transition" to carbon neutrality by 2050

Key Policies

Key policies to support and accelerate JBA member banks' efforts for their clients' orderly transition to carbon neutrality

- 1 Financial intermediation
- 2 Cooperation with industrial sectors
- 3 Public advocacy
- 4 International discussions

Key Priorities

Key priorities to achieve the 2030 interim GHG reduction targets

- 1 Engagement
- 2 Assessment
- 3 Sustainable finance
- 4 Climate-related disclosure
- 5 Climate-related financial risks

Key Policies

- Achieving carbon neutrality requires significant efforts by both the public and private sectors globally and nationally. It is therefore essential to work collaboratively, not just within the banking industry alone, but also with industrial sectors, the government and the international community.
- The JBA, as the premier Japanese banking association, is committed to playing a leading role in such cooperation with key stakeholders, working collaboratively to achieve carbon neutrality by 2050.

Key Policies		Our Approach	Initiatives
1	Financial intermediation	<ul style="list-style-type: none"> ● The banking industry, as the key financial intermediary in Japan, has a <u>social responsibility</u> to provide financial support to the economy to achieve a Just Transition. ● At the same time, banks are expected to effectively <u>manage climate-related financial risks</u> for their financial soundness and to meet the <u>stakeholders' expectations</u>. 	<ul style="list-style-type: none"> ● Host seminars inviting relevant ministries, agencies and experts. ● Run an information platform where JBA member banks can refer to key policies and documents by theme. ● Continue to respond to JBA member banks' needs and challenges. Develop the JBA's capabilities and expertise.
2	Cooperation with industrial sectors	<ul style="list-style-type: none"> ● The JBA will carry out <u>sector-to-sector engagement with relevant industrial organisations</u> to collaboratively achieve carbon neutrality. ● <u>The JBA will act as a hub</u> for sharing issues between the banking industry and industrial sectors. 	<ul style="list-style-type: none"> ● Deepen collaboration and cooperation with relevant industrial organisations, and consider cross-industrial measures and initiatives. ● Host seminars inviting speakers from industries to foster mutual understanding with those industrial sectors / Explain the banking industry's initiatives at seminars hosted by relevant industrial organisations.
3	Public advocacy	<ul style="list-style-type: none"> ● The JBA will actively engage in public advocacy, sharing <u>financial issues and challenges for carbon neutrality and a Just Transition</u>. ● In areas where concerted efforts are required for Japan's international competitiveness, <u>the JBA will work with relevant industrial organisations</u> as necessary. 	<ul style="list-style-type: none"> ● Participate in relevant government councils and share the banking industry's views. ● Advocate policy recommendations in relation to climate policy/rule-making. ● Share the banking industry's initiatives and challenges with relevant ministries and agencies.
4	International discussions	<ul style="list-style-type: none"> ● <u>The JBA will actively participate in and contribute to international policy/rule-making</u>. ● It also promotes close cooperation with the <u>International Banking Federation (IBFed) and other bankers associations</u> to address common challenges and share good practices. 	<ul style="list-style-type: none"> ● Enhance the international presence of Japanese banks in the sustainable finance area. ● Actively participate in international discussions on policy/rulemaking in cooperation with Japanese authorities. ● Continuously collaborate and cooperate with the IBFed and foreign bankers associations in other jurisdictions.

[Key policy #1] Financial intermediation

- The banking industry, as the key financial intermediary in Japan, has a social responsibility to provide financial support to the economy to achieve a Just Transition.
- At the same time, banks are expected to effectively manage climate-related financial risks for their financial soundness and to meet the stakeholders' expectations.

Funds required for carbon neutrality and the role of banks

Required funds	Global	IEA ⁶	USD 4 trillion annually by 2030	Getting the world on track for net zero emissions by 2050 requires nearly USD 4 trillion additional investment annually by 2030 from current levels (USD 1 trillion on average during 2016 to 2020).
	Japan	GX Promotion Strategy ⁷	JPY 150 trillion over the next 10 years	Based on the trial calculation from the Clean Energy Strategy Interim Report (May 2022) with the amounts of decarbonisation-related investments in major sectors accumulated under specified assumptions, investing over 150 trillion yen will be necessary in the next ten years to achieve carbon neutrality in 2050.

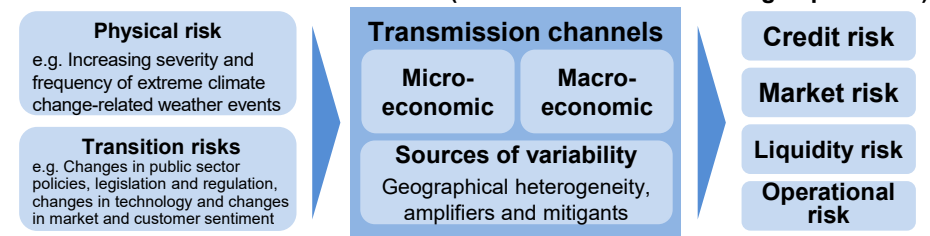
The banking industry, as the key financial intermediary, needs to play a new role to support clients' Just Transition in addition to the traditional roles. To enhance efforts through cooperation between public and private sectors, the banking industry will contribute to the establishment of a GX promotion Agency (scheduled in FY 2024) and support other activities.

Traditional role	New role
Engagement in lending and investment activities to meet funding needs for clients (e.g., working capital, capital investments).	Engagement in supporting efforts for green initiatives, transition and innovation not only by providing funds

Potential impacts of climate-related risk on banks

Climate-related risk drivers can be classified into either physical or transition risks. These risk drivers affect banks' financial risks via micro- and macroeconomic transmission channels.

Financial risks from climate risk drivers (Basel Committee on Banking Supervision⁸)



The Basel Committee on Banking Supervision (BCBS) released "Principles for the effective management and supervision of climate-related financial risks". These principles **require banks to incorporate climate-related risks into their risk management frameworks and assess the capital and liquidity adequacy for such risks⁹**.

The JBA supports the efforts by its member banks to meet such significant funding needs and enhance their risk management of climate-related risks, both of which require cross-organisational efforts.

Approach

Host seminars inviting relevant ministries, agencies and experts.

Run an information platform where JBA member banks can refer to key policies and documents by theme.

Continue to respond to JBA member banks' needs and challenges. Develop the JBA's capabilities and expertise.

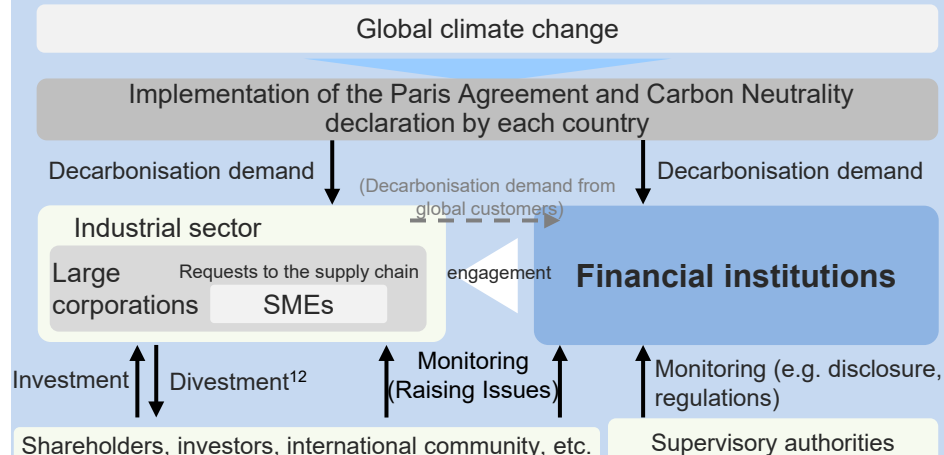
[Key policy #2] Cooperation with industrial sectors

- The JBA will carry out sector-to-sector engagement with relevant industrial organisations to collaboratively achieve carbon neutrality.
- The JBA will act as a hub for sharing issues between the banking industry and industrial sectors.

Challenges for industrial sectors¹⁰

Internal	<ul style="list-style-type: none"> Challenges for reaching a consensus within the company in setting company-wide targets.
External	<ul style="list-style-type: none"> Challenges for calculating Scope 3 emissions¹¹ (A number of estimates and data to improve accuracy are required.) Reducing GHG emissions throughout the supply chain including SMEs requires significant efforts.
Technological	<ul style="list-style-type: none"> In some industrial sectors, key decarbonisation technologies have not been established yet. Even if technologically feasible, it may be challenging to reflect the higher cost into their product pricing.
Cost	<ul style="list-style-type: none"> While decarbonisation may bring additional cost/investment burdens, it is uncertain whether those can be offset by additional revenue. Ensuring competitive fairness between companies promoting decarbonisation and those not dedicating efforts.

Environment surrounding industrial sectors and banking industry



Achieving Carbon Neutrality by 2050 is a challenging task, and there are many industries that cannot achieve it immediately. In order for banks to understand clients' initiatives and challenges, it is necessary to work together and cooperate with industrial sectors not only at the corporate level, but also at the sector-to-sector level.

Approach

Deepen collaboration and cooperation with relevant industrial organisations, and consider cross-industrial measures and initiatives.

Host seminars inviting speakers from industries to foster mutual understanding with those industrial sectors / Explain the banking industry's initiatives at seminars hosted by relevant industrial organisations.

[Key policy #3] Public advocacy

- The JBA will actively engage in public advocacy, sharing financial issues and challenges for carbon neutrality and a Just Transition.
- In areas where concerted efforts are required for Japan's international competitiveness, the JBA will work with relevant industrial organisations.

Policy measures for achieving Carbon Neutrality

Key policy measures under the GX Promotion Strategy

(Realisation and implementation of growth-oriented carbon pricing concept)

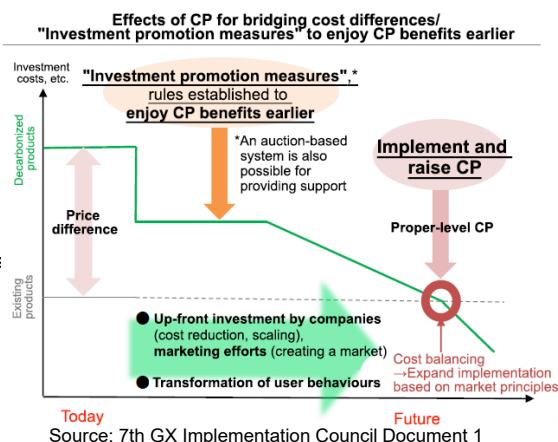
- Massive upfront investment support through "GX Economic Transition Bonds" (tentative)(investment promotion measures integrated with regulations and public support)
- Incentives for upfront GX investment through carbon pricing (CP)
- Implementation of new financial instruments

(Global strategy)

- Leading the creation of green markets and global cooperation in innovation to contribute to the realisation of GX on a global scale

(Promoting GX throughout society)

- Boosting a "Just Transition"
- Promoting GX from the demand side
- Promoting GX of SMEs



Key government's councils (As of December 2023)

JFSA*	METI*	MOE*	Council
✓	Observer	Observer	Expert Panel on Sustainable Finance
✓	Observer	Observer	Working Group on Impact Investment
✓	✓	✓	Taskforce on Preparation of the Environment for Effective Transition Finance
✓	✓	✓	Japan Public and Private Working Group on Financed Emissions to Promote Transition Finance
✓	✓	✓	Conference of Organisations Related to Scenarios and Data for Evaluating Climate Change Risks and Opportunities
Observer	Observer	✓	ESG Finance High Level Panel
Observer	Observer	✓	Green Finance Study Group

(Reference) Recent policies in other countries

U.S.	Decided to invest USD 369 billion over the next 10 years through tax credits and subsidies ¹³ (August 2022) Capital investment for the introduction of clean energy and the manufacturing of solar panels, and support for the purchase of EVs
EU	Green Deal Investment Plan providing EUR 1 trillion from public and private sources over the next 10 years ¹⁴ (April 2020) Support for improvement in energy efficiency of buildings and introducing clean energy

Achieving the targets set out in the Paris Agreement requires concerted efforts by the international community. Japan needs to mobilise all available policy measures to achieve carbon neutrality and for a Just Transition. Those are also the keys for realising a "positive cycle of economic growth and the environmental protection", thereby strengthening international competitiveness through business transformation.

Approach

Participate in relevant government councils and share the banking industry's views.

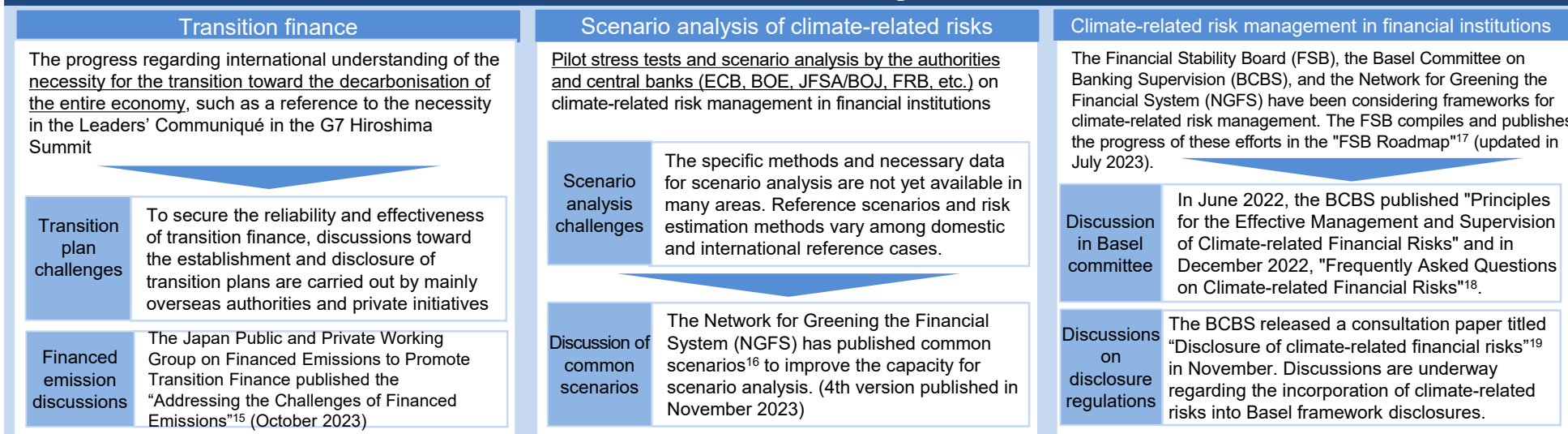
Advocate policy recommendations in relation to climate policy/rule-making.

Share the banking industry's initiatives and challenges with relevant ministries and agencies.

[Key policy #4] International discussions

- The JBA will actively participate in and contribute to international policy/rule-making.
- It also promotes close cooperation with the International Banking Federation (IBFed) and other bankers associations to address common challenges and share good practices.

International discussions on investment alignment with climate issue



There are growing trends of global alignment, integration and standardisation of rules, as well as extraterritorial application of certain jurisdictional rules. In order to ensure Japan's international competitiveness, it is important to actively participate in international discussions sharing Japan's view.

Approach

Enhance the international presence of Japanese banks in the sustainable finance area. (e.g., internationally share the Japanese government's and banks' efforts)

Actively participate in international discussions on policy/rulemaking in cooperation with Japanese authorities. (e.g., share views at international conferences, provide comments to public consultations)

Continuously collaborate and cooperate with the IBFed and foreign bankers associations in other jurisdictions.

Major Progress in Key Priorities (January 2023 to February 2024)

- Particularly from the perspective of engagement, the JBA provided information through climate change dedicated website and other sources, and released materials to support interactions between banks and their customers. In addition, the JBA hosted the JBA CNI Compass Program 13 times, inviting speakers from relevant ministries and agencies, and submitted comments on 21 domestic and international public consultations.

Key Priorities		Action Plan	Major Progress (Corresponding Action Plan Number)
1	Engagement	<ol style="list-style-type: none"> Support member banks' initiatives, including the use of engagement support tools, such as "First Steps Toward Decarbonisation" [New] Host seminars/study sessions inviting stakeholders, such as relevant industrial organisations and ministries, to better understand sector-specific action plans and economic/technological challenges [On-going] 	<ul style="list-style-type: none"> February: Explained the banking industry's efforts at a seminar hosted by the Tokyo Chamber of Commerce and Industry. (7) April: Explained the progress of efforts by the JBA at the Net-Zero Banking Alliance (NZBA) (1), (7), (11) February 2024: Released CO2 Visualisation and Beyond, a document that helps small and medium-sized businesses promote decarbonisation management (1), (7), (9) Year round: Hosted the JBA CNI Compass Program 13 times, inviting speakers from relevant ministries and agencies (1), (2), (3), (4), (6), (7), (9), (10), (11), (12)
2	Assessment	<ol style="list-style-type: none"> Follow the trends in global, regional and domestic assessment guidance/criteria [On-going] Share examples of leading cases/examples. [On-going] Participate and advocate in relevant government councils. [On-going] 	<ul style="list-style-type: none"> January 2023: Climate change and biodiversity (11) February: Utilization of "First Steps Toward Decarbonisation" (1), (7) March: Pro-Growth Carbon Pricing Concept and GX League (2) April: Long-term CCS roadmap (2) May: Automobile sector roadmap (2)
3	Sustainable finance	<ol style="list-style-type: none"> Participate in discussions to promote sustainable finance, including discussions to ensure the eligibility and credibility of transition finance [On-going] Cooperate with SME-related organisations to advocate for support programs to complement the private sector's efforts. [On-going] 	<ul style="list-style-type: none"> June: Guidelines Concerning the Activities of Enterprises, etc. Toward the Realization of a Green Society Under the Antimonopoly Act (2) July: Progress and challenges of sustainable finance/Transition Finance Follow-up Guidance (2), (6) September: The status of development of sustainability disclosure standards (IFRS S1, S2 standards, etc.) (3), (9), (10)
4	Climate-related disclosure	<ol style="list-style-type: none"> Advocate through relevant government councils and the TCFD Consortium. [On-going] Monitor the progress of TCFD disclosure by our member banks. [On-going] Cooperate with international fora such as PCAF on Scope 3 emissions calculations. [On-going] 	<ul style="list-style-type: none"> October: TNFD v1.0, SMBC Group TNFD Report 2023 (3), (4), (10), (11) November: MUFG Transition White Paper 2023, Decokatsu (4) December: BCBS public consultation document "Disclosure of climate-related financial risks" (11), (12) January 2024: COP28, Asia Zero Emission Community (11) February: NFGS Scenarios (11), (12)
5	Climate-related financial risks	<ol style="list-style-type: none"> Participate in international discussions on climate-related financial risks. [On-going] (e.g., share views at international conferences, provide comments to public consultations) Participate in discussions to develop data and methodologies for scenario analysis [New] 	<ul style="list-style-type: none"> Year round: Submitted comments on 21 domestic and international public consultations (5), (6), (11) Submitted comments regarding the JFSA's "Supervisory Guidance on Climate-related Risk Management and Client Engagement (Draft)" (May). (12) Year round: Participated in discussions at the Expert Panel on Sustainable Finance hosted by JFSA, other government councils, and at the TCFD Consortium. (5), (6), (8), (11), (12)

Key Priorities by 2030

- The first step for clients to respond to climate change is to identify potential climate-related risks and opportunities and, based on their materiality, develop a credible transition plan for decarbonisation, including specific actions during the “critical decade” up to 2030.
- The starting point for banks to support such a transition is to engage with clients to build a common understanding on their challenges and issues. The JBA will actively play a key role to facilitate such engagement by its member banks and address industry-wide challenges.

Key Priorities		Challenges	Action Plan
1	Engagement	<ul style="list-style-type: none"> ● Currently, <u>the advancement of client self-assessment on climate-related risks and opportunities varies by sector and company.</u> ● <u>The banking industry needs to build expertise on climate-related policies and sector-specific challenges</u> for engagement with clients and effective management of climate-related risks. 	<ul style="list-style-type: none"> ● Support member banks' initiatives, including the use of engagement-related support materials, such as “CO2 Visualisation and Beyond”. [On-going] ● Host seminars/study sessions inviting stakeholders such as relevant industrial organisations and ministries to better-understand sector-specific action plans and economic/technological challenges. [On-going]
2	Assessment	<ul style="list-style-type: none"> ● <u>A globally consistent assessment framework/criteria on whether a client's activities and transition plan are credibly aligned with the Paris Agreement and/or NDCs does not necessarily exist.</u> ● There, however, is <u>internationally growing pressure</u> on banks to demonstrate to stakeholders how banks reduce their financed emissions. 	<ul style="list-style-type: none"> ● Monitor the trends of available assessment guidance/criteria. (global, regional and domestic) [On-going] ● Share examples of leading cases/examples. [On-going] ● Participate and advocate in relevant government councils [On-going]
3	Sustainable finance	<ul style="list-style-type: none"> ● Further promotion of sustainable finance, including transition finance, is needed to realise GX. ● <u>For SMEs</u>, transforming their business entails numerous challenges. 	<ul style="list-style-type: none"> ● Participate in discussions to promote sustainable finance, including discussions to secure the eligibility and effectiveness of transition finance [On-going] ● Cooperate with SME-related organisations to advocate for support programs to complement the private sector's efforts. [On-going] ● Support initiatives to achieve environmental and social effects (impacts) [New]
4	Climate-related disclosure	<ul style="list-style-type: none"> ● Progress is being made in the development of a framework for climate-related disclosures. <u>Continuous engagement with clients is indispensable to enhance banks' disclosure.</u> ● For banks' climate-related disclosures, industry-wide discussions on actions and measures are required to meet the <u>challenge of Scope 3 emissions calculations.</u> 	<ul style="list-style-type: none"> ● Advocate through relevant government councils and the TCFD Consortium. [On-going] ● Monitor the progress of sustainability disclosures by our member banks, and support initiatives using “CO2 Visualisation and Beyond” [New] ● Cooperate with international fora such as PCAF on Scope 3 emissions calculations. [On-going]
5	Climate-related financial risks	<ul style="list-style-type: none"> ● Discussions are carried out for the management of climate-change risks for banks, including the Basel framework. The JBA needs to actively participate in international discussions. ● It is necessary to address issues, such as a lack of data and methodologies for scenario analysis, to identify and manage climate-change risks. 	<ul style="list-style-type: none"> ● Participate in domestic and international discussions on climate-related financial risks. (e.g., presentation at international conferences, provide comments during public consultations) [On-going] ● Participate in discussions to organise available data and methods for scenario analysis. [On-going]

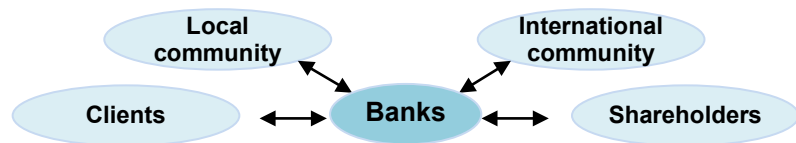
[Key priority #1] Engagement

- Currently, the advancement of client self-assessment on climate-related risks and opportunities varies by sector and company.
- The banking industry needs to build expertise on climate-related policies and sector-specific challenges for engagement with clients and effective management of climate-related risks.

Current status and challenges

Engagement by banks

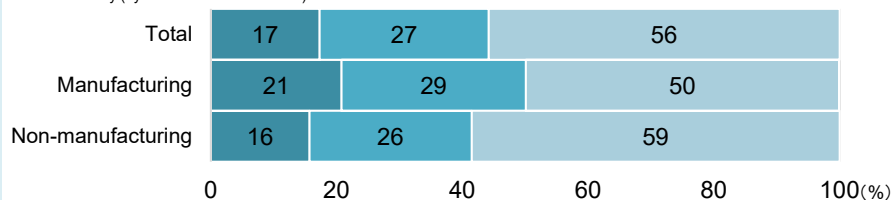
Need to build relationships and engage with various stakeholders



Challenges

The progress of efforts toward decarbonisation varies by sector and company. It is important for banks to deepen their understanding of clients' opportunities and risks/challenges, including efforts in the critical decade.

Status of considering actions to address the impact of carbon neutrality (by size of business in sales)

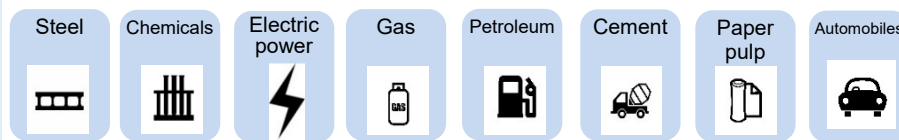


Source: Shoko Chukin Bank, "Survey on Carbon Neutrality awareness among SMEs" (July 2021)

Necessity to understand transition plans of the industrial sector

Sector/field-specific initiatives

Some hard-to-abate sectors are facing economic/technological challenges for decarbonisation.



In addition to the efforts of individual companies and industries, **it is necessary to understand the interconnections among related industries, as well as the transition plans of each industry and efforts in the supply chain.**

Initiatives by relevant ministries and agencies

- The Financial Services Agency released the "Report by the Working Group on Financial Institutions' Efforts towards Decarbonization of the Economy" as a guide for financial institutions' initiatives towards net zero (June 2023)²⁰
- The Financial Services Agency, the Ministry of Economy, Trade and Industry, and the Ministry of the Environment released "Transition Finance Follow-up Guidance" as guidelines for the steady accomplishment of transition strategies and the improvement of corporate value, particularly after financing (June 2023)²¹

Action Plan

Support member banks' initiatives, including the use of engagement-related support materials, such as "CO2 Visualisation and Beyond" [On-going]

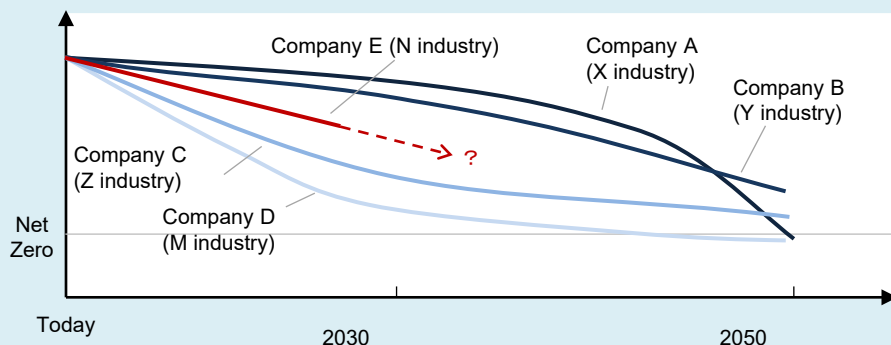
Host seminars/study sessions inviting stakeholders such as relevant industrial organisations and ministries to better-understand sector-specific action plans and economic/technological challenges. [On-going]

[Key priority #2] Assessment

- A globally consistent assessment framework/criteria on whether a client's activities and transition plan are credibly aligned with the Paris Agreement and/or NDCs does not necessarily exist.
- There, however, is internationally growing pressure on banks to demonstrate to stakeholders how banks reduce their financed emissions.

Challenges in assessing the client's transition plan

GHG emissions Transition plans of investees/borrowers vary by sector and company.



Challenges

- While transition plans vary by sector and company, **criteria for assessing feasibility and reliability are yet to be established in some sectors.**
- Due to uncertainties of the business environment and resource constraints, developing **a long-term transition plan may be difficult** (in particular, for SMEs).

Examples of available assessment guidance/criteria

There are various domestic and regional assessment guidance/criteria that can be used as a reference. However, the features of such guidance/criteria vary.



Taxonomy

- EU Taxonomy²²
- Green Bond Endorsed Project Catalogue²³
- IPSF²⁴ Common Ground Taxonomy²⁵
- ASEAN Taxonomy²⁶



Guideline

- Principles established by the International Capital Markets Association (ICMA)
- Guidelines established by the MOE
- Basic Guidelines on Climate Transition Finance established by the METI²⁷, etc.



Scenarios/Roadmap

- Paris Agreement Compatible Scenarios
- NGFS Scenarios¹⁶
- IEA Scenarios²⁸
- METI Roadmaps for Climate Transition Finance



ESG ratings providers, etc.

- The IOSCO published final recommendations on ESG Ratings and Data Products Providers²⁹.
- The JFSA published the Code of Conduct for ESG Evaluation and Data Providers³⁰.

It could be ideal to have a globally consistent assessment guidance/criteria from a perspective of ensuring objectivity, transparency and accountability. However, currently, various assessment guidance/criteria exist, and both the banking industry and the industrial sector are facing a challenge to choose the most suitable guidance/criteria.

Action Plan

Monitor the trends of available assessment guidance/criteria. (global, regional and domestic) [On-going]

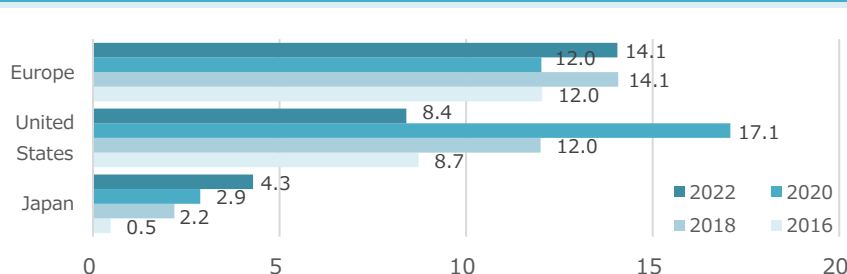
Share examples of leading cases/examples. [On-going]

Participate and advocate in relevant government councils. [On-going]

[Key priority #3] Sustainable finance

- Further promotion of sustainable finance, including transition finance, is needed to realise GX.
- For SMEs, transforming their business entails numerous challenges. The public sector needs to play a complementary role in supporting and financing the transition.

Global sustainable investing assets (2016-2022)



Source: GLOBAL SUSTAINABLE INVESTMENT REVIEW 2022 (Updated biannually) (in trillions USD)
The decrease in investment in Europe in 2020 is due to a change in the definitions. The decrease in investment in the United States in 2022 is due to a change in the calculation method.

Key challenges in regional and SME finance

Expectation for regional financial institutions	SMEs' challenges
<ul style="list-style-type: none"> • Discuss and share the goals of the region with stakeholders, conduct business feasibility assessments from a medium/long-term timeframe, and provide finance and support for core business. • Enhance awareness among local companies to decarbonise through engagement and support their efforts. 	<p>Business and financial resources are restricted for a significant business transformation.</p>

Cooperation with the SME Agency, local governments and SME-related organisations is critical.

Key challenges/global trends of transition finance

- While there is progress in international positioning and understanding, such as the Leaders' Communiqué in the G7 Hiroshima Summit held in May 2023 that states that transition finance has a significant role in advancing the decarbonisation of the entire economy, **discussions toward the establishment and disclosure of "transition plans" are carried out to secure the reliability and effectiveness of transition finance.**

The progress of discussions for securing the reliability and effectiveness of transition finance

GFANZ³¹

In September 2023, public consultations were held regarding "defining transition finance and considering the method of calculating contributions to decarbonization³²."

UK TPT³³

In October 2023, a framework to require listed companies and financial institutions in the UK to develop and publish a transition plan³⁴ was released.

Japanese authorities

In October 2023, the Financial Services Agency, the Ministry of Economy, Trade and Industry, and the Ministry of the Environment, in cooperation with private financial institutions, released the paper titled "Addressing the Challenges of Financed Emissions"¹⁵

Initiatives to achieve environmental and social impacts

- In November 2023, the Impact Consortium³⁵ was established to achieve a positive cycle, where the solution of environmental and social challenges, including carbon neutrality, leads to sustainable growth.

Action Plan

Participate in discussions to promote sustainable finance, including discussions to secure the reliability and effectiveness of transition finance [On-going]

Cooperate with SME-related organisations to advocate for support programs to complement the private sector's efforts. [On-going]

Support initiatives to achieve environmental and social effects (impacts) [New]

[Key priority #4] Climate-related disclosure

- Progress is being made in the development of a framework for climate-related disclosures. Continuous engagement with clients is indispensable to enhance banks' disclosure.
- For banks' climate-related disclosures, industry-wide discussions on actions and measures are required to meet the challenge of Scope 3 emissions calculations

Global sustainability disclosure standards

- In June 2023, the ISSB³⁶ of the IFRS Foundation finalised and released S1 General Requirements and S2 Climate-Related Disclosures as global sustainability disclosure standards. They came into effect in January 2024. (Regulatory authorities in each jurisdiction are responsible for determining when to apply the ISSB standards to specific disclosure rules in their jurisdictions.)

S1 General Requirements for Disclosure of Sustainability-Related Financial Information
Comprehensive baseline for ISSB standards. Applied to the disclosure of sustainability-related risks and opportunities for which theme-specific requirements, such as those specified in S2, have not been developed.

S2 Standards that stipulate thematic requirements for Climate-Related Disclosures
S2 cannot be applied alone and has to be applied with S1. Established according to TCFD recommendations and it requires more specific disclosures than those recommended in TCFD.

The status of on-going considerations in Japan

- The SSBJ³⁷, which was established in the Financial Accounting Standards Foundation, is currently developing a domestic sustainability disclosure standard that is based on the ISSB standards. It will be finalised by the end of FY2024.

Challenges of climate-related disclosures

Companies

- Challenges for calculating Scope 3 emissions (a number of estimates and data are required to improve accuracy).
- Information disclosed by certain companies is still limited*.
* For example, disclosure lacks descriptions of Scope 3 emissions, emissions by business line, emissions from consolidated companies and reduction targets.



As Scope 3 emissions (Financed Emissions³⁸) amount for the majority of banks' GHG emissions, enhancing companies' disclosures and enhancing banks' disclosures are interlinked.

Banks

- The metrics and calculation methods of Scope 3 emissions are still in the development phase. The limitation of clients' GHG emission disclosures also limits banks' ability for Scope 3 disclosure.
- There are challenges related to scenario analysis (e.g. high uncertainty in analyses and complicated scenario design).
- Improving the quality of TCFD disclosures is a challenge.

Initiatives for fostering awareness of climate-related disclosures

- In February 2024, the JBA, the Regional Banks Association of Japan, and the Second Association of Regional Banks released "CO2 Visualisation and Beyond"³⁹, a document that helps SMEs promote decarbonisation management and supports fostering awareness of climate-related disclosures, including the calculation and disclosure of greenhouse gas emissions.

Action Plan

Advocate through relevant government councils and the TCFD Consortium. [On-going]

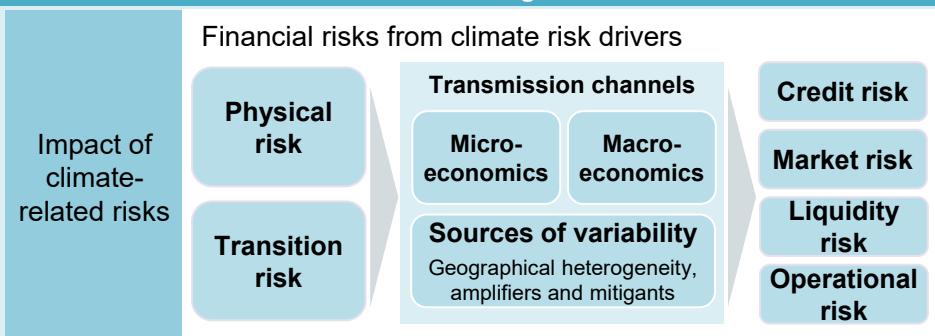
Monitor the progress of sustainability disclosures by our member banks, and support initiatives using "CO2 Visualisation and Beyond" [New]

Cooperate with international fora such as PCAF on Scope 3 emissions calculations. [On-going]

[Key priority #5] Climate-related financial risks

- Discussions are carried out for the management of climate-change risks for banks, including the Basel framework. The JBA needs to actively participate in international discussions.
- It is necessary to address issues, such as a lack of data and methodologies for scenario analysis, to identify and manage climate-change risks.

Impact of climate-related risks on the financial system and risk analysis methodologies



➔ The impacts of climate change materialise over time with a **complex path and depend on future policy and social economic conditions. These potential impacts may be significant.**

Risk analysis methodologies

Given the nature of climate-related risks, “**scenario analysis**” is an effective tool. The NGFS provides several scenarios and recommends quantitative analysis that is used in stress testing as a scenario analysis approach by regulators. The FSB noted that the goal is for all financial risk decisions to appropriately take account of climate change.

Challenges and efforts regarding advanced scenario analysis, etc.

Scenario analysis challenges

Examples of scenario analysis challenges include:

- **A lack of data** on the impact of GHG emissions and reductions;
- **A globally accepted impact analysis method is yet to be established** due to its long-term nature and geographical differences; and
- **High uncertainty in analyses and complicated scenario design.**

Trends in Japan

Pilot exercise

In August 2022, the JFSA and the Bank of Japan released a report⁴⁴ on a pilot scenario analysis exercise conducted with three major banks and three major non-life insurance groups. **Many issues regarding scenario analysis methods and data were identified.**

Efforts to utilize data

At the “Working-level Meeting on Scenario Data for Climate-Related Risk and Opportunity Assessment”, **discussion about data usage is on-going between data providers (ministries and agencies, etc.) and data users (industries and financial institutions, etc.).**

The progress of considerations for the third pillar of the Basel framework

The BCBS released the public consultation document “Disclosure of climate-related financial risks”¹⁹ in November 2023. The document aims to determine **how banks' climate change-related risks should be disclosed according to the third pillar (market discipline)** of the Basel disclosure framework. Its final suggestions will be summarised in the latter half of 2024.

Action Plan

Participate in domestic and international discussions on climate-related financial risks. (e.g., presentation at international conferences, provide comments during public consultations) [On-going]

Participate in discussions to organise available data and methods for scenario analysis. [On-going]

Notes

1. The Act on Promotion of a Smooth Transition to a Decarbonized Growth-Oriented Economic Structure (GX Promotion Act) enforced in June 2023 (Only available in Japanese) <https://www.meti.go.jp/press/2023/06/20230620003/20230620003.html>
2. The Leaders' Communiqué in the G7 Hiroshima Summit (May 2023) https://www.mofa.go.jp/mofaj/gaiko/summit/hiroshima23/documents/pdf/Leaders_Communique_01_en.pdf?v20231006
3. The G7 Finance Ministers and Central Bank Governors' Statement (May 2023) https://www.mof.go.jp/policy/international_policy/convention/g7/g7_20230513_2.pdf
4. The Sixth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) published in August 2021 <https://www.ipcc.ch/report/ar6/wg1/>
5. According to the ICMA, a “Just Transition” is defined as a transition that “seeks to ensure that the substantial benefits of a green economy transition are shared widely, while also supporting those who stand to lose economically – be they countries, regions, industries, communities, workers or consumers”. The Just Transition concept links to the United Nations’ Sustainable Development Goals (SDGs). (ICMA Climate Transition Finance Handbook Related questions) <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/CTF-Handbook-QA-09122020.pdf>
6. IEA (International Energy Agency), Net Zero Roadmap A Global Pathway to Keep the 1.5°C Goal in Reach, published in September 2022) https://iea.blob.core.windows.net/assets/9a698da4-4002-4e53-8ef3-631d8971bf84/NetZeroRoadmap_AGlobalPathwaytoKeepthe1.5CGoalinReach-2023Update.pdf
7. The Strategy for Promoting Structural Transition based on Decarbonization (GX Promotion Strategy), published in July 2023 (Only available in Japanese) <https://www.meti.go.jp/press/2023/07/20230728002/20230728002.html>
8. Basel Committee on Banking Supervision, “Climate-related risk drivers and their transmission channels” published in April 2021 <https://www.bis.org/bcbs/publ/d517.pdf>
9. Basel Committee on Banking Supervision, “Principles for the effective management and supervision of climate-related financial risks” published in June 2022 <https://www.bis.org/bcbs/publ/d532.pdf>

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10. Based on the results of individual interviews and surveys conducted by the JBA.
11. "Scope 3" emissions refer to indirect greenhouse gas emissions from business activities in a company's supply chain, other than direct emissions (Scope 1: direct greenhouse gas emissions by the reporting company itself) and energy-derived indirect emissions (Scope 2: indirect emissions from the use of electricity, heat or steam supplied by others.) (MOE and METI, "Basic Guidelines on Accounting for Greenhouse Gas Emissions Throughout the Supply Chain" (2012))
https://www.env.go.jp/earth/ondanka/supply_chain/gvc/en/files/GuideLine.pdf
12. "Divestment" is an investment method whereby, from ESG perspectives, securities and other instruments related to a specific company or industry are excluded from the investment portfolio or are disposed of if they have already been purchased.
13. Inflation Reduction Act of 2022
<https://www.congress.gov/bill/117th-congress/house-bill/5376>
14. The European Green Deal Investment Plan
[https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/649371/EPRS_BRI\(2020\)649371_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/649371/EPRS_BRI(2020)649371_EN.pdf)
15. "Addressing the Challenges of Financed Emissions", published in October 2023
<https://www.fsa.go.jp/en/news/2023/20231013.html>
16. "NGFS Climate Scenarios for central banks and supervisors" published in September 2022
https://www.ngfs.net/sites/default/files/medias/documents/ngfs_climate_scenarios_for_central_banks_and_supervisors_.pdf.pdf
17. Financial Stability Board (FSB), "FSB Roadmap for Addressing Financial Risks from Climate Change: 2022 progress report" published in July 2022
<https://www.fsb.org/2022/07/fsb-roadmap-for-addressing-financial-risks-from-climate-change-2022-progress-report/>
18. Basel Committee on Banking Supervision, "Frequently asked questions on climate-related financial risks" published in December 2022
<https://www.bis.org/bcbs/publ/d543.pdf>
19. The Basel Committee on Banking Supervision, Disclosure of climate-related financial risks, published in November 2023
<https://www.bis.org/bcbs/publ/d560.pdf>
20. The Financial Services Agency "Report by the Working Group on Financial Institutions' Efforts towards Decarbonization of the Economy", published in June 2023
<https://www.fsa.go.jp/en/news/2023/20230627.html>

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21. The Financial Services Agency, the Ministry of Economy, Trade and Industry, and the Ministry of the Environment, "Formulation of the Transition Finance Follow-up Guidance ~ Guidance for an effective dialogue with fundraisers ~", published in June 2023
<https://www.fsa.go.jp/en/news/2023/20230721.html>
22. EU Taxonomy (Sustainable finance taxonomy - Regulation (EU) 2020/852)
<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852&from=EN>
23. China Green Bond Endorsed Project Catalogue
<http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4342400/2021091617180089879.pdf>
24. The IPSF (International Platform on Sustainable Finance) is a multilateral forum that aims to enable exchange of practices and increase international cooperation on matters related to sustainable finance. As of February 2024, policymakers from 20 jurisdictions have joined the IPSF, including the EU, Japan, China, the UK, Canada, Switzerland, Singapore, New Zealand, India, Indonesia, Hong Kong, and Malaysia.
https://finance.ec.europa.eu/sustainable-finance/international-platform-sustainable-finance_en (IPSF website)
25. The Common Ground Taxonomy is a project led by the IPSF for ensuring the comparability and interoperability of existing taxonomies across jurisdictions. It intends to provide more clarity and transparency about the commonalities and differences between approaches and potentially contribute to the analysis to lower the trans-boundary cost of sustainable investments and scale up the mobilisation of sustainable capital internationally.
https://finance.ec.europa.eu/sustainable-finance/international-platform-sustainable-finance_en (IPSF website)
26. ASEAN Taxonomy (ASEAN Taxonomy for Sustainable Finance)
<https://asean.org/asean-sectoral-bodies-release-asean-taxonomy-for-sustainable-finance-version-1/> (ASEAN website)
27. JFSA, METI, MOE, "Basic Guidelines on Climate Transition Finance" published in May 2021
https://www.meti.go.jp/english/press/2021/0507_001.html (METI website)
28. IEA Scenarios, "Global Energy and Climate Model"
<https://www.iea.org/reports/global-energy-and-climate-model> (IEA website)
29. IOSCO, "Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report" published in November 2021
<https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>
30. JFSA, "The Code of Conduct for ESG Evaluation and Data Providers" published in December 2022
<https://www.fsa.go.jp/en/news/2022/20221215/20221215.html> (JFSA website)

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31. GFANZ (Glasgow Financial Alliance for Net Zero) is a private initiative across the financial industry that was established in April 2021 to accelerate the transition to net zero by 2050. It is composed of more than 50 countries and 675 financial institutions (as of February 2024).
<https://www.gfanzero.com/>
32. GFANZ, Defining Transition Finance and Considerations for Decarbonization Contribution Methodologies, published in September 2023
<https://assets.bbhub.io/company/sites/63/2023/09/Defining-Transition-Finance-and-Considerations-for-Decarbonization-Contribution-Methodologies-September-2023.pdf>
33. The UK TPT (Transition Plan Taskforce) was established to develop a framework to require listed companies and financial institutions in the UK to develop and publish a transition plan.
<https://transitiontaskforce.net/> (UK TPT website)
34. UK TPT, The TPT Disclosure Framework, published in October 2023)
https://transitiontaskforce.net/wp-content/uploads/2023/10/TPT_Disclosure-framework-2023.pdf
35. The Impact Consortium is an organisation that enables a wide range of entities to collaborate and interact with each other to achieve a positive cycle, where the solution of environmental and social challenges leads to sustainable growth.
(Only available in Japanese) https://goodway.co.jp/fip/htdocs/event/20231128_impact/
36. The ISSB (International Sustainability Standards Board) is a board established in the IFRS Foundation that intends to develop a comprehensive global baseline of sustainability-related disclosure standards.
<https://www.ifrs.org/groups/international-sustainability-standards-board/>
37. The SSBJ (Sustainability Standards Board of Japan) was established in July 2022 by the Financial Accounting Standards Foundation (FASF) for the purpose of providing input into the development of an internationally harmonised sustainability disclosure standard by the ISSB and to examine disclosure standards in Japan.
<https://www.asb.or.jp/jp/>
38. "Financed Emissions" refers to the greenhouse gas emissions of financial institutions that fall into Scope 3, category 15: Investments. Financed emissions account for the majority of banks' GHG emissions.
39. The JBA, the Regional Banks Association of Japan, and the Second Association of Regional Banks, CO2 Visualisation and Beyond, published in February 2024
(Only available in Japanese) <https://www.zenginkyo.or.jp/news/2024/n022901/>

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40. JFSA, BOJ, "Pilot Scenario Analysis Exercise on Climate-Related Risks Based on Common Scenarios" published in August 2022
<https://www.fsa.go.jp/en/news/2022/20220826.html>
41. The Financial System Council, Report of the Working Group on Corporate Disclosure, published in June 2022
(Only available in Japanese) https://www.fsa.go.jp/singi/singi_kinyu/tosin/20220613.html
42. JFSA, Public Comments Regarding the Revised Cabinet Office Ordinance on the Disclosure of Corporate Information, published in January 2023
(Only available in Japanese) <https://www.fsa.go.jp/news/r4/sonota/20230131/20230131.html>
43. The Sustainability Standards Board of Japan (SSBJ) was established in July 2022 by the Financial Accounting Standards Foundation (FASF) for the purpose of providing input into the development of an internationally harmonised sustainability disclosure standard by the ISSB and to examine disclosure standards in Japan.
<https://www.ssb-j.jp/en/>
44. JFSA, BOJ, Pilot Scenario Analysis Exercise on Climate-Related Risks Based on Common Scenarios, published in August 2022
<https://www.fsa.go.jp/en/news/2022/20220826.html>
45. "PRA" refers to Prudential Regulation Authority.