



Carbon Neutrality Initiative 2024 (Overview)

- Provisional English version -

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JAPANESE BANKERS ASSOCIATION

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 sector-to-sector engagement with <u>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.

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]