July 15, 2020

Directorate-General for Financial Stability,
Financial Services and Capital Markets Union
European Commission
1049 Brussel, Belgium

Japanese Bankers Association

JBA Comments on "*Consultation on the Renewed Sustainable Finance Strategy*" by the European Commission (EC)

Dear Directorate-General for Financial Stability, Financial Services and Capital Markets Union:

We, the Japanese Bankers Association[1] (JBA), appreciate the opportunity to provide comments on the Consultative Document "*Consultation on the Renewed Sustainable Finance Strategy*" released by the European Commission (EC) on April 8, 2020.
We hope that our comments will contribute to further discussions at the EC.

[General Comments]

The EU has been taking the lead of the discussions in the sustainable finance area, by launching the sustainable finance strategy in 2018 and the follow up actions. Based on the strategy, many innovative initiatives, such as the European Green Deal in December 2019 and the EU Taxonomy Regulation in June 2020, were put in place. These initiatives truly established the baseline of the EU regulatory framework of sustainable finance and we assume more detailed measures/requirements and regulatory frameworks will be proposed based on the Renewed Sustainable Finance Strategy (hereafter "the Strategy").

Although we understand the Strategy is principally applied to financial institutions established in the EU, we appreciate the Strategy is important and relevant to Japanese banking groups with a footprint in the EU jurisdictions. We assume it will affect Japanese banks' global business strategies and operations in the longer term. We, thus, respectfully request that this letter and the specific comments separately submitted on the consultation paper be given careful thought for the purpose of fruitful discussion as the strategy may directly and indirectly affect the Japanese banking industry.

Our top priority is to seek clarification about how the policies and regulatory frameworks developed under the Strategy would be applied to Japanese banking groups. In this regard, we consider the following three points are particularly important and encourage international dialogue. We would be delighted to be actively involved in the discussions and contribute to the future deliberations on the scope of activities covered by the EU Taxonomy.

- From a non-EU bank's perspective, it should be clarified whether our business operations on a global basis would be in scope of the possible regulatory requirements deriving from the Strategy. We believe the scope should be limited to the entities established within the EU, but the scope of application should be clarified, so that non-EU stakeholders can appropriately provide input to the future consultations.
  It is extremely important for EU policy makers to consider that if and when our home regulator (or other major host regulators in other jurisdictions where we operate) sets forth supervisory expectations/requirements in dealing with climate change, Japanese banks would be required to comply with those expectations/requirements. However, if there are differences and/or inconsistencies between such expectations/requirements and the regulatory requirements deriving from the Strategy, the compliance exercise would unavoidably be inefficient and possibly ineffective to comply with multiple requirements. To avoid such inefficiencies and additional fragmentation in requirements, we encourage the EU policy makers to incorporate the framework of

[1] The Japanese Bankers Association is the leading trade association for banks, bank holding companies and bankers associations in Japan. As of July 15, 2020, JBA has 117 Full Members (banks), 3 Bank Holding Company Members (bank holding companies), 73 Associate Members (banks & bank holding company), 58 Special Members (regionally-based bankers associations) and one Sub-Associate Member for a total of 252 members. Several of its largest member banks are active participants in the EU financial markets.

equivalency/deference and substituted compliance with respect to the third country regulatory requirements.

- To secure the consistency of the regulatory framework globally and avoid such fragmentation, the consistency with other existing and future international regulatory frameworks, such as Basel requirements, should be ensured. Further, we request the EC to coordinate with other regulators, not only within the EU, but in other major jurisdictions.

- Finally, we agree that it is important to clearly define and expand “green activities” to promote a sustainable economy from a medium- to long-term perspective. Yet, we are of the view that the scope of the EU Taxonomy is extremely narrow and believe it may reduce the sustainable financing activities due to the short list nature of the Taxonomy. We strongly suggest the inclusion of the concept of transition/innovation which helps economic activities be more “green”, avoiding the unintended effect of the EU Taxonomy.

[Specific comments]

Please refer to each answer/comment to questions in the designated answer format.

(End)

July 15, 2020

[Specific Comments to each question]

Items	Q	Choices	Comments
General questions	4	No	*At the present stage, it is important to firstly promote the voluntary initiative such as TCFD.
General questions	6	-	Three main challenges; *Consistency with globally coordinated policies to address global challenges *Policies that provide appropriate incentives *Stocktaking of best practices of forward-looking risk scenario analysis and enhancement of the comparability given available historical data is limited Three main opportunities; *Financing activities aimed at mitigating physical and transitional risks based on the TCFD approach *Provision of hedging instruments against identified risks *Support for new technologies and innovation
General questions	8	-	*Avoiding abrupt policy changes and encouraging medium- and long-term corporate self-help efforts by improving predictability. *Policy support, such as through just transition, to balance with promoting economic growth and reducing transition risk *Capacity rebuilding of workers based on changes in industrial structure
General questions	9	5	*It should be clearly explained if the definition of the classification of those assets can be justified and where there is a risk difference between those assets on what time frame such risk is considered to arise, because NGFS has not concluded that there is a risk difference between green and brown assets. *In order to avoid economic turmoil caused by short-term policy changes, it is important to create a framework that enhances the predictability of medium- and long-term policies and

Items	Q	Choices	Comments
			encourages companies to make self-help efforts, taking into account the scenario analysis performed by private sectors.
General questions	10	No	-
ESG ratings and data	17	4	*The methodologies and quality of ESG ratings have not yet been fully established, and there are significant differences in the methodologies used by rating agencies. It is hoped that more credit rating agencies will enter the market and compete, thus improving the quality of ratings and promoting healthy competition.
ESG ratings and data	19	3	*From the perspective of issuers subject to ESG ratings and researches, their valuation methodologies are not adequately disclosed. It is difficult to analyze the factors and compare them with other companies in the same industry. In the case of private-sector ESG research, while there is an opportunity to review the report before it is published, we request to improve the transparency of research methods.
ESG ratings and data	21	Yes	*ESG ratings and research conducted in the private sector are still in their infancy, and no correlation between them or correlation with issuers' performance has been demonstrated. Under these circumstances, excessive involvement of the EU public sector should in principle be kept to a minimum. *However, there is a concern that the methodologies of ESG ratings differ among rating agencies and the market participants focus only ESG ratings (score). There may be room for improvement not only in giving some alerts to credit rating agencies, but also in promoting disclosure of methodology/information as a background of scores.
Definitions, standards and labels for sustainable financial assets and financial products	24	Yes	*It is assumed that non-EU issuers may be requested by EU investors to comply with the EU GBS rules if Euro-denominated bonds or other securities are distributed to EU investors. However, the EU Taxonomy is strictly defined and there is a concern that the assets covered will be extremely limited and the market size will not expand. We understand that the current green bond market represents only a few percent of the general bond market, but EU

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			GBS is a more limited definition. In order to mainstream sustainable finance, it will be desirable to establish an EU GBS with a broader definition.
Green securitisation	54	4	*We believe that the expansion of green securitization will increase the amount of green loans and other loans extended by financial institutions and expand the range of entities that can raise funds through sustainable finance. Currently only some large companies can issue such bonds because, as a barrier to issue green bonds and social bonds, the amount of eligible assets is often less than sufficient for debenture issue. *On the other hand, a significant amount of underlying asset in the market and a compliance framework to deal with investor risk should be the prerequisites for the expansion of green securitization.
Green securitisation	55	Yes	*Green securitization is not yet widespread due to the lack of guidelines for risk analysis and assessment of green assets and frameworks for risk guarantees. For example, with auto securitization, as it is currently difficult to measure residual value risk in electric vehicles, it is therefore difficult for banks and investors to create products similar to securitized products backed by conventional internal combustion locomotives. *Within the framework of green securitization, guidance and specific measures on a framework for analyzing and guaranteeing residual value risk for green assets such as electric vehicles would also facilitate "*Green securitization and collaboration between banks and investors,*" which is referred on page 22 of the Consultation.
Green securitisation	56	Yes	*In order to avoid failing to confirm the eligibility of individual assets and resulting in greenwash with the expansion of green securitization, we believe that it is necessary to establish principles and standards for eligible assets for green securitization, such as mortgages limited to buildings that have obtained environmental certification. *However, the following points should be taken into consideration: - The concept of green securitization is understood to be aimed at promoting green finance by

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<tr><th>Items</th><th>Q</th><th>Choices</th><th>Comments</th></tr>
<tr><td></td><td></td><td></td><td>allowing favorable treatment in prudential regulation, for example, reducing risk weight of securitization products meeting certain green requirements under bank's capital requirements.
The NGFS report "A Status Report on Financial Institutions' Experiences from working with green, non-green and brown financial assets and a potential risk differential" published in May 2020 states that no conclusions can be drawn on the risk differential between green and brown assets.
If it is statistically confirmed that the relevant securitized products are relatively low-risk in the long term, it is reasonable to grant such preferential treatment. However, if it is not, there is a risk that the purpose of the regulation will be undermined and unintended market distortions will be created.
- In addition, if EU banks with global operations operate in other jurisdictions, they must meet the Basel international regulatory framework. Therefore, the preferential treatment for green securitizations need to be established in a manner consistent with the Basel STC requirements. If more favorable treatment than Basel requirements were allowed for EU banks with global operations, it should be demonstrated that the extent and impact of such treatment would not be contrary to the purpose of the Basel international regulatory framework.</td></tr>
<tr><td>Incentives to scale up sustainable investments</td><td>67 -1</td><td>4</td><td>-</td></tr>
<tr><td>Incentives to scale up sustainable investments</td><td>67 -2</td><td>-</td><td><table>
<tr><th>Types of incentives</th><th>Bonds</th><th>Loans</th><th>Equity</th><th>Other</th></tr>
<tr><td>Revenue - Neutral Subsidiaries for issuers</td><td>n.a.</td><td>4</td><td>n.a.</td><td>n.a.</td></tr>
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<tr><td>De-raising mechanisms such as guarantees and closed financing instruments at EU level</td><td>n.a.</td><td>4</td><td>n.a.</td><td>n.a.</td></tr>
<tr><td>Technical Assistance</td><td>n.a.</td><td>n.a.</td><td>n.a.</td><td>n.a.</td></tr>
<tr><td>Any other public sector incentives - Please specify in the box below.</td><td>n.a.</td><td>n.a.</td><td>4
tax incentives</td><td>n.a.</td></tr>
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<tr><td>Incentives to scale up sustainable investments</td><td>67 -3</td><td>-</td><td>*In cases where there is little difference in risk/return between asset classes, the following three types of public support seem to be effective as incentives for the desired asset classes: (1) tax incentives, (2) interest subsidies, and (3) capital relief in holding assets. (1) and (2) are categorized as Revenue-neutral subsidies for issuers, (3) is categorized as the de-risking mechanism.
*As for de-risking mechanism, public guarantees and co-financing with public institutions are effective in cases where private financial institutions alone cannot finance loans (For example, projects in countries with high country risk). With regards to technical assistance, when the risk is relatively high such as in the case of new technology which cannot be covered by the amount of return, public subsidies and aid are effective.
*Degree of risk appetite is as follows; public subsidy/aid > equity > bond ≧loans.</td></tr>
<tr><td>The use of sustainable finance tools and frameworks by public authorities</td><td>73</td><td>Yes</td><td>-</td></tr>
<tr><td>Promoting sustainable finance globally</td><td>76</td><td>2</td><td>*As the number of companies adopting the TCFD and other disclosure frameworks for addressing climate change is increasing, it is important to expand these voluntary efforts under international cooperation in the future.
*In addition, the development of a framework through international cooperation on sustainable finance initiatives, including the coordination among authorities through NGFS, is significant</td></tr>
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Items	Q	Choices	Comments
			to expand the scale of sustainable finance and market participants. In order to build a framework for the expansion of sustainable finance that encourages each country to address its goal in a feasible manner, we request that experts from Japan should be allowed to join the EU project and their views are reflected in the rule making in the EU.
Global coordination	77	-	*The situation of private sector depends on the nature of their business and the business environment. Specifically, the following measures should be taken while the situation and impact of each company and country should be considered in policies and regulations: - Clarify the long-term direction of EC's policy to improve the predictability of private enterprises - Collect and share information on best practices of leading companies - Comprehensively consider policies involving non-EU regions to address global issues in an internationally coordinated manner
Promoting sustainable finance globally	79	-	*We welcome the following public support measures in the promotion of sustainable cross-border finance: - Strengthen financial support, including the ability to supply local currencies through foreign exchange hedging and interest rate hedging, and country risk insurance for private financial institutions. - Political support and advice through government-to-government channels to accelerate the introduction of renewable energy in emerging countries (Example: CfD, FIT deployment, etc.)
Promoting sustainable finance globally	80	These tools need to be adapted to local specifications in emerging	*As the scope of the EU Taxonomy is too restricted, mobilizing funds to this extent alone may fail to reduce CO2 emissions and may rather interfere the feasibility of the Paris Agreement contribution goal for each country. *It is desirable for companies and financial institutions to promote the use of a flexible and increasingly widespread disclosure framework such as TCFD as the basis for promoting green

Items	Q	Choices	Comments
		markets and/or developing economies.	finance in each country, and draw up their own taxonomies under international cooperation based on the experience gained from such use. However, since it is not feasible at this moment, it should be allowed for market participants to use the review by an external organization with sufficient expertise and to make decisions by themselves. *Guidelines for matters requiring information disclosure are useful for assessing the environmental impact of undertakings and projects in other regions as well as EU, and the benefits of a uniform set of guidelines are commensurate.
Promoting sustainable finance globally	81	No	*Energy diversity and energy resilience, which are essential for the economic activities in emerging countries, are not taken into account in the EU Taxonomy. Therefore, we consider it appropriate that each country adapts its own taxonomy with flexibility to fit for each country's economic development stage.
Identifying exposures to harmful activities and assets and disincentivising environmentally-harmful investments	82	Yes Other	*As some common standard is necessary in promoting sustainable finance, we support the progress of taxonomy itself. *However, we believe that the priority at this stage is the promotion of the transition to green, and the establishment of brown taxonomy should be carefully considered from following perspectives: - Views and approaches to sustainability vary from country to country. As consideration for a stable supply of energy is also an important issue that cannot be ignored by each country, it is desirable to avoid a uniform approach. Even in activities that are supposed to be classified as brown, their contribution to the transition to a decarbonized society through innovation and the value chain is fully conceivable. - In addition, an excessive credit crunch in certain sectors/businesses classified as brown or an excessive concentration of credit in certain sectors/businesses classified as non-brown could constitute a risk to financial stability in the short term. - On the other hand, even if brown taxonomy is to be developed, we believe that adequate and

Items	Q	Choices	Comments
			appropriate consideration should be given particularly when using it as a prudential regulation tool. The NGFS report "Status Report On financial institutions' experiences from working with green, non-green and brown financial assets and a potential risk differential" published in May 2020 states that no conclusions can be drawn on the risk differential between green and brown assets. The prudential rules should not be adjusted for purposes other than to ensure the soundness of the banking system and brown taxonomy should not be used to be incorporated into prudential rules without objective and substantiated evidence that brown exposures are at higher risk than green exposures.
Identifying exposures to harmful activities and assets and disincentivising environmentally-harmful investments	83	No	-
Financial stability risk	84	Transition Risks	*Acute risks of physical risks usually do not necessarily lead to immediate losses for banks because some of them are generally covered by insurance or the company in its strategy. However, transition risks and chronic risks of physical risks are subject to gradual changes, making it difficult to recognize such risks and to take immediate action through relations with stakeholders, which may result in losses for financial institutions. *For example, examining longer-maturity projects, such as project finance in sectors affected by policies, requires accurate estimate and projections of long-term transition risks, which are difficult to analyze at this stage. Therefore, it may become difficult for financial institutions to take long-term risks, and as a result, transition risks may become apparent at a relatively early stage, leading to funding difficulties and credit uncertainty.
Financial stability risk	85	-	*Unique policy framework to enhance predictability for financial institutions' actions, enhanced

Items	Q	Choices	Comments
			Due Diligence, risk awareness and scenario analysis based on TCFD *Reflection on business strategy *Sharing best practices by UNEP-FI, NGFS, etc.
Financial stability risk	86	2	*Given that acute physical risks of climate change risks impact bank customers, it is important to implement policies that promote businesses' preparedness in their strategies and risk management, including insurance, BCPs, backup facilities, and supply chain diversification. The risk in this case first directly affects their equity valuation, and it is assumed that the risk to bank loans is indirect. *Chronic physical risks or transition risks are expected to shift gradually and steadily over a certain period of time, and if they are expected to be large, preparations for risk materialization may be necessary. At present, however, the NGFS report "Status Report On financial institutions' experiences from working with green, non-green and brown financial assets and a potential risk differential" published in May 2020 states that it cannot conclude on the risk gap between green and non-green, brown assets. Therefore, discussions on capital requirement should not be hasty without data support. *While historical data are currently scarce to measure future risk, it should be discussed at a stage where practices such as scenario analysis will be accumulated and the extent of systemic risk for banks can be measured in the future.
Financial stability risk	88	Yes	*However, the following points should be taken into consideration: - ESG risk analysis initiatives are not yet mature in the market and there are cases with no correlation between the indicators. Consideration of hasty incorporation into prudential regulation (Risk Weighted Capital Requirements, etc.) before completion of these empirical analyses should be carefully considered, as it may create unintended distortions in economic activities and accumulate risks in the financial system. - If EU banks with global operations act in other jurisdictions, it needs to meet the Basel

Items	Q	Choices	Comments
			internationally regulatory framework as minimum global standard. In addition, if the treatment beyond such Basel framework is allowed, it should be demonstrated that the extent and impact of this would not be contrary to the concept of the Basel international regulatory framework. - There is currently no global consensus on the impact of climate change risks. We believe that the first step should be to establish international consensus on the impact of future climate change risks through thorough quantitative analysis, and then to consider what measures are necessary to mitigate such impacts from the perspective of prudential regulations.
Financial stability risk	89	Yes	*While regulatory capital relief for green assets should be based on clear evidence, we can specify TCFD, project pipeline (Q 60) and taxonomy penetration to prevent greenwashing.
Improving resilience to adverse climate and environmental impacts	99	Yes	(Loss Data) *To identify industries affected by changes in social structure and to improve the accuracy of forecasting future risk amount when estimating transition risk (Physical Risk Data) *To improve the accuracy of physical risk calculations *For all data specified above, however, it is necessary to clarify the definition of the scope of data collection (i.e. What do you define as climate change related losses and disasters?). *In addition, in order to draw a statistically reliable conclusion from the relevant data, it is necessary to carry out observation over a sufficiently long period of time, for example, data preparation for geographical disaster maps, etc., utilizing insurance company's expertise.

End