January 27, 2021

JBA Comments on the TCFD Consultation “Forward-Looking Financial Sector Metrics,” published on October 29, 2020

Q1. Questions about forward-looking metrics.	
1-1 Multiple-choice question (Select all that apply) *In what way are forward-looking climate-related metrics used within your organization?*	Answer - *For internal risk management, strategy, or financial planning* - *For investment/portfolio allocation decisions* - *For engagement with companies in which we invest* - *For communication with investors or other stakeholders*
1-2 [1-1 Open-ended question]	Answer - One of the JBA member bank conducts scenario analyses for energy and utility sectors using the following scenarios: (i) the International Energy Agency (IEA)'s Sustainable Development Scenario (SDS) to assess transition risk and (ii) RCP8.5 scenario to assess physical risk. Although the sectors in scope are currently still limited, we are considering expanding the target in the future. - When conducting an Environmental & Social Review under Equator Principles, our member banks collect some metrics from clients to conduct Climate Change Risk Assessment for applicable projects. There are some cases that a client uses implied temperature rise for physical risk assessment and future potential carbon tax or internal carbon pricing for transition risk assessment. - In addition, there is a case we use forward-looking metrics such as ITR disclosed by an asset management affiliate company for the assessment of financial impact within a group and for investment strategy.
1-3 Multiple-choice question (Select all that apply) *Select any metrics your organization uses for financial decisions, monitoring, or to consider the positioning of your total portfolio with respect to the transition to a lower-carbon economy:*	Answer - (*Others*) Environmental impact of project finance in the Power Generation Business in the form of CO2 emissions intensity index (CO2 emissions divided by electricity output in proportion to funds extended by banks (for *monitoring*)

1-4 [1-3 Open-ended question] *You said you do not use any metrics. Please tell us more about your response.*	Answer NA
1-5 Multiple-choice question (Select all that apply) *Which of the following metrics does your organization disclose?*	Answer *A forward-looking estimate of the amount or percentage of carbon-related assets in each portfolio over the course of their planning horizon* (*Currently Disclose*)
1-6 [1-5Open-ended question]	Answer - “A forward-looking estimate of the amount or percentage of carbon-related assets in each portfolio over the course of their planning horizon” => limited to project finance in the coal power generation business It is disclosed by one of our member banks which has set a target to reduce the outstanding loan balance of project finance for coal-fired power generation to 50% compared with FY 2019 in FY 2030, and to zero in 2040. - “Implied temperature rise or warming potential” For bank sector, it is still too early to disclose ITR because the methodologies for these metrics have not yet been globally standardized nor it is not examined which metrics are useful yet. For asset management sector, we would like to refer to an example of ITR disclosure by a trust and banking affiliate of JBA member bank. As an asset manager, the trust and banking affiliate undertook and disclosed the results of a climate-related portfolio risk assessment. They worked with the Institutional Shareholder Services (ISS) and used the methodology which is based on the forecast by the International Energy Agency (IEA). They assessed and disclosed the implied temperature rise up to 2050 due to greenhouse gas emissions by the investee companies within its portfolio which includes domestic bonds and stocks and foreign bonds and stocks.

1-7 Multiple-choice question (Select all that apply) *Which types of financial organizations should disclose forward-looking climate-related metrics? That is, which would be most useful to you?*	Answer - *Asset owners* - *Asset managers* - *Banks* - *Insurers*
1-8 [1-7Open-ended question]	Answer We believe that it is important to broaden the scope of forward-looking climate metrics which can be disclosed. However, we also think it is important that the definition of each metrics is consistent among financial institutions.
1-9 Multiple-choice question (Select all that apply) (In addition to asset owners,) *who else should disclose such "metrics considered in investment decisions and monitoring?"*	Answer - *Asset managers, for investment decisions and monitoring* - *Banks, for lending decisions and monitoring* - *Insurance companies, for underwriting decisions and monitoring*
1-10 [1-9 Open-ended question]	Answer We believe it is important for banks to disclose basic information that what kinds of climate related metrics are considered for lending decisions and monitoring from ESG perspectives and it could mitigate ESG risks of lender banks.

2. Questions about the usefulness of various metrics and challenges associated with these metrics	
2-1 Multiple-choice question *How do you currently view disclosure for forward-looking climate-related metrics?*	Answer *The benefits will outweigh the challenges if there is further standardization of metrics*
2-2 [2-1 Open-ended question]	Answer - Currently there is an issue on consistency in metrics used by each financial institution. This may cause concern that when we disclose metrics, investors might misunderstand or have difficulty in comparison with other financial institutions. - In relation to the metrics on GHG emission, we understand that Carbon footprint (Scope 3) is useful for investment / loan and management decision-making and stakeholder communications (e.g. investor, NGO), so we would like to estimate GHG emissions from our portfolio as soon as possible. On the other hand, there are many companies that do not collect or disclose their carbon footprint and there is also an issue on lack of comparable methodologies. - These issues could be relieved by standardization of metrics related to carbon footprint measurement or disclosure of carbon footprint reference data of each sector by the government, which will encourage banks to disclose their Scope 3 GHG emissions and to utilize it for investment / loan and management decision-making. - In order to start using or disclosing forward-looking metrics such as CVaR and ITR, it is necessary to estimate GHG emissions from banks' portfolio. It would be appreciated if TCFD/FSB could start with standardizing metrics related to carbon footprint measurement.
2-3 Multiple-choice question *How does the lack of reliable or comparable GHG emissions data impact the usefulness of forward-looking metrics as part of financial decisions?*	Answer *It's somewhat of a barrier*
2-4 [2-3 Open-ended question]	Answer - In order to conduct detailed analysis and reflect into financial risk analysis, it is suitable to cover the GHG emission data as much as possible. However, these metrics still have challenges in lack of comparable GHG emission data methodologies and need further validation on relationship between GHG emission and credit risk/reputational risk. - In addition, the lack of comparable GHG data would be one of the challenges for banks to measure the impact of the carbon-pricing (when it is fully implemented) on their customers' performance by using forward-looking metrics, and to monitor the progress of their actions to transition to a decarbonized society by using forward-looking metrics."

2-5 Multiple-choice question (Select all that apply) *Which GHG emissions scopes should be covered in an ideal forward-looking methodology?*	Answer *Scope 1* and *Scope 2*
2-6 [2-5 Open-ended question]	Answer We realize that stakeholders are willing to know about the Scope 3 emissions of financial institutions.
2-7 Multiple-choice question How important is it to understand which scenarios and pathways were used in the calculation of forward-looking metrics to make them decision-useful?	Answer *Very important*
2-8 [2-7 Open-ended question]	Answer As a basic standpoint, we believe that it is better to standardize the scenarios and pathways from the comparability perspective. We also think it is a company's decision and strategy which scenarios and pathways to use. A company may need to choose them considering the features of sector specific environment and their ideal society to pursue. Therefore, it is useful from the view point of financial institutions to have some common scenarios and pathways but better not too much standardized.
2-9 Multiple-choice question (Select all that apply) *Which of the following metrics do you find useful for financial decision-making?*	Answer *Could be useful with improvements to methodology* - *Amount of apportioned emissions over/under a 1.5 ^{0}C alignment trajectory* - *forward-looking estimate of the amount or percentage of carbon-related assets in each portfolio over the course of their planning horizon* - *Unpriced carbon cost* - *Implied temperature rise or warming potential*

2-10 [2-9 Open-ended question]	Answer - We need more validations on how these metrics above are useful in financial/credit decisions and it is essential to understand carbon-related risks and impact on P/L and B/S of each company with specified time horizon. - Regarding "A forward-looking estimate of the amount or percentage of carbon-related assets in each portfolio over the course of their planning horizon": In the supplemental guidance for bank sector in the Section D of Supplemental Guide - Implementing the Recommendations of the Task Force on Climate-related Financial Disclosures, the "carbon-related assets" means assets of energy sector and utilities sectors defined by the Global Industry Classification Standard (GICS). If we classify the industries in more detail, the risks are different for each industry and for each company's approach. So, the metric does not necessarily reflect the level of credit risk exposure by banks. Therefore, the meaning of disclosing the metric by banks should be examined. - Regarding "Implied temperature rise or warming potential (ITR)": The ITR may be a useful metrics to help evaluate whether or not the bank is making efforts consistent with the Paris Agreement's target. However, given that the TCFD recommends disclosure of information to help investors assess banks' climate change-related credit risk exposures, the relationship between ITR and banks' credit risk should be validated and clarified. - Regarding "The proportion of underlying investments that are aligned with the EU Taxonomy", it is not reasonable to adopt this metric based on the EU taxonomy as TCFD framework will globally apply.
2-11 Multiple-choice question *Which of the following metrics would you find useful if disclosed by the following groups?*	Answer - *Carbon earnings at risk* [*Banks*] - *Climate value-at-risk* [*Asset Owners*] - *A forward-looking estimate of the amount or percentage of carbon-related assets in each portfolio over the course of their planning horizon* [*Banks*] - *Implied temperature rise or warming potential* [*Banks*] - *Unpriced carbon cost* [*Banks*] - *Amount of apportioned emissions over/under a 1.5°C alignment trajectory* [*Banks*]
2-12 [2-11 Open-ended question]	Answer NA

2-13 Multiple-choice question *Which challenges has your organization faced in using or disclosing forward-looking metrics?*	Answer (for *using* and *disclosing*) - *Lack of/ poor quality GHG emissions data* - *Metrics are useful internally but not suitable for public disclosure* - *Distrust in the reliability of outcomes* - *Lack of /poor quality of other data (non-GHG emissions)* - *Concerns around reliance on assumptions required to derive future company-level emissions* - *Lack of comparable metric calculation methodologies* - *Difficult to understand or opaque metric calculation methodologies* - *Concerns around reliance on assumptions and future uncertainty* - *Resource constraints*
2-14 [2-13 Open-ended question] *Please describe any further information on challenges your organization has faced in using or disclosing forward-looking metrics.*	Answer - Generally, we are still in a development stage on how to utilize metrics and trying to find a way to disclose with comparable and consistent metrics. - It is still too early for banks to use and disclose advanced forward-looking metrics such as Climate VaR and ITR because these metrics have not yet been globally standardized nor it is not examined which metrics and methodologies are useful yet. It is important to consider the current practice and level of maturity of methodologies for any next steps taken by the TCFD. As it is necessary to estimate GHG emissions from banks' portfolio to calculate and disclose forward looking metrics, it would be appreciated if TCFD/FSB could start with standardizing metrics related to carbon footprint measurement.
2-15 Multiple-choice question *Which of these changes would improve the usefulness of forward-looking disclosures for you?*	Answer - *Better availability and quality of GHG emissions data* - *More comparable approaches to calculation methodologies* - *More clarity and transparency in calculation methodologies*
2-16 [2-15 Open-ended question]	NA
3. Questions about implied temperature rise (ITR)	
3-1 Multiple-choice question (Select all that apply) *Does your organization disclose an implied temperature rise metric?*	Answer *No, we don't disclose any implied temperature rise metrics*

3-2 [3-1 Open-ended question]	Answer - For bank sector, it is still too early to disclose ITR because the methodologies for these metrics have not yet been globally standardized nor it is not examined which metrics are useful yet. Until the standardized methodologies of ITR are established, banks can utilize Scope 3 GHG emission for stakeholder communication or financial decision making. As it is necessary to estimate GHG emissions from banks' portfolio to calculate and disclose ITR, it would be appreciated if TCFD/FSB could start with standardizing metrics related to carbon footprint measurement. ITR may be a useful metrics to help evaluate whether or not the bank is making efforts consistent with the Paris Agreement's target. However, given that the TCFD recommends disclosure of information to help investors to assess banks' climate change-related credit risk exposures, the relationship between ITR and credit risk should be validated and clarified. - For asset management sector, we would like to refer to an example of ITR disclosure by a trust and banking affiliate of JBA member. As asset manager, the trust and banking affiliate undertook and disclosed the results of a climate-related portfolio risk assessment. They worked with the Institutional Shareholder Services (ISS) and used the methodology which is based on the forecast by the International Energy Agency (IEA). They assessed and disclosed the implied temperature rise up to 2050 due to greenhouse gas emissions by the investee companies within its portfolio which includes domestic bonds and stocks and foreign bonds and stocks.
3-3 Multiple-choice question *To what extent does your organization find current ITR disclosures useful in financial decision-making?*	Answer *Somewhat useful*
3-4 Multiple-choice question *Has an ITR rating influenced a specific financial decision your organization has made?*	Answer *No*
3-5 [3-4 Open-ended question] *Please provide any further information on why an ITR rating has or has not influenced a decision, as applicable.*	Answer If we find out that specific sector/business have significant impact by temperature rise or significant impact on temperature rise, it is helpful for considering the portfolio allocation decision.

3-6 Multiple-choice question (Select all that apply) *What are the benefits of ITR as a metric?*	Answer - *Useful for assessing climate-related risks* - *Easy to understand* - *Useful for engagement*
3-7 [3-6 Open-ended question]	Answer NA
3-8 Multiple-choice question *How much would each of the following improve the rigor and usefulness of ITR disclosures?*	Answer - *Better availability and quality of GHG emission data* [*Improve a lot*] - *More clarity and transparency in calculation methodologies* [*Improve a lot*] - *More comparable approaches to calculation methodologies* [*Improve a lot*] - *Use of standard forward-looking emission pathways* [*Improve a little*]
3-9 [3-8 Open-ended question] *Please provide any additional information about how the rigor and usefulness of ITR disclosures could be improved.*	Answer NA
3-10 Multiple-choice question *How useful would disclosure of ITR rating be from the following types of financial organizations?*	Answer - *Asset owners* [*Somewhat useful*] - *Asset managers* [*Somewhat useful*] - *Banks* [*Somewhat useful*] - *Insurance companies* [*Very useful*] - *Index providers* [*Very useful*]
3-11 [3-10 Open-ended question] *Please provide any additional information about how disclosure of an ITR rating from a financial organization could be useful.*	Answer For banks, disclosure of the ITR rating will be useful as one element of metrics but it is necessary to consider other aspects including sector or geographical differences.

3-12 Multiple-choice question *How useful would an ITR rating be for each of the following asset classes?*	Answer - *Listed Debt* [*Somewhat useful*] - *Real Estate* [*Somewhat useful*] - *Sovereign Debt* [*Somewhat useful*] - *Loans to corporate* [*Somewhat useful*] - *Mortgages* [*Somewhat useful*] - *Listed equity* [*Somewhat useful*]
3-13 [3-12 Open-ended question]	Answer NA
3-14 Multiple-choice question *For each sector listed below, how useful would you find an ITR rating in financial decisions?*	Answer - *Transportation* [*Very useful*] - *Materials and buildings* [*Somewhat useful*] - *Energy* [*Extremely useful*] - *Agricultural food, and forest products* [*Extremely useful*] - *Other sectors*: Medical [*Somewhat useful*]
3-15 [3-14 Open-ended question]	Answer NA
3-16 Multiple-choice question *How useful would disclosures of an ITR metric be at each of the following levels?*	Answer - *Company level* [*Somewhat useful*] - *Portfolio level* [*Somewhat useful*] - *Fund level* [*Somewhat useful*] - *Investment strategy level* [*Not very useful*] - *Asset level* [*Not very useful*]
3-17 [3-16 Open-ended question]	Answer We think disclosure of portfolio level is enough and not of asset level which may cause misunderstanding to stakeholders.

(End)