

Platform on Sustainable Finance  
European Commission  
1049 Brussels, Belgium



Japanese Bankers Association

## **JBA comments on the Platform on Sustainable Finance's draft report on taxonomy extension options linked to environmental objectives**

Dear Sirs/Madams:

The Japanese Bankers Association<sup>1</sup> (JBA) appreciates the opportunity to provide comments on the Platform on Sustainable Finance's draft report on taxonomy extension options linked to environmental objectives<sup>2</sup> on July 12, 2021.

We hope that our comments will contribute to further discussions at the Platform.

### **General Comments**

We welcome the proposal in this report by the Platform on Sustainable Finance which focuses on facilitating transition finance for economic activities which cannot reach green performance, as we have provided our opinion since 2019 on EU Taxonomy that it should support not only purely green economic activities but also economic activities aimed at the transition to a low-carbon economy.

However, there still are various challenges in how companies in sectors engaging in categorized as significantly harmful (SH) activities can develop reliable transition strategies and raise funds by using the criteria defined in the extended taxonomy.

The financial sector in Japan, like in many other jurisdictions, plays an important role to finance the energy transition, but also to manage the risks related to this transition. From the viewpoint of sustainability, Japanese banks have been supporting our clients for their sustainable growth by working together to explore solutions to medium- to long-term environmental and social issues in their businesses, as well as providing support for the incubation and expansion of large-scale business opportunities in the future.

That includes continuous dialogue with our clients in carbon intensive sectors to explore technological solutions for overall reductions in GHGs.

We believe a globally consistent ESG policy, regulatory and disclosure framework are key in this process. Common understanding through definitions (e.g. taxonomy) is indeed important, but as we have previously stated in our response to the previous consultations, we believe taxonomies need to be flexible enough to foster innovation and facilitate transition. If we imagine the carbon neutral world we have committed to, we agree sustainable economic activities defined under the EU taxonomy should have become the majority of the economy by 2050.

### **Comments on “Significantly Harmful” Taxonomy**

The extended “significantly harmful” (SH) taxonomy should avoid discouraging investment towards companies engaging in activities defined as SH and increase in costs. Therefore, it is important that SH taxonomy should be accompanied by the guidance on how companies in sectors where transition is difficult can develop reliable transition strategies and raise funds by using the criteria defined in the extended taxonomy.

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<sup>1</sup> The Japanese Bankers Association is the leading trade association for banks, bank holding companies and bankers associations in Japan. As of August 30, 2021, JBA has 114 Full Members (banks), 3 Bank Holding Company Members (bank holding companies), 74 Associate Members (banks & bank holding companies), 58 Special Members (regionally-based bankers associations) and one Sub-Associate Member for a total of 250 members. Several of its largest member banks are active participants in the EU financial markets.

<sup>2</sup> [https://ec.europa.eu/info/publications/210712-sustainable-finance-platform-draft-reports\\_en](https://ec.europa.eu/info/publications/210712-sustainable-finance-platform-draft-reports_en)

Also, the SH taxonomy would have additional complexity to the existing taxonomy and increase reporting burden. In order to identify the “Intermediate Performance levels” for supporting “Intermediate Transition”, it is sufficient to use the “substantial contribution” (SC) and “do no significant harm” (DNSH) criteria under the Delegated Act and will not need “always SH” taxonomy.

### **Comments on “No Significant Impact” Taxonomy**

While we believe that the taxonomy extension to support transition should be prioritized, we do not see sufficient benefit in adopting the “no significant impact” (NSI) taxonomy at this stage considering the additional complexity to the existing taxonomy and regulatory burdens.

(End)

[Specific Comments]

	Question	Answer
1	<p>Which environmental performance levels should the taxonomy distinguish, with a view to help the environmental transition? Please select all of those that you would prioritise:</p>	<ul style="list-style-type: none"> <li>• Substantial contribution</li> <li>• Intermediate performance</li> <li>• Significantly harmful - but can improve to sustainability</li> <li>• Significantly harmful - but can improve not to do significant harm</li> </ul>
2	<p>How could policies ensure that recognising the transition from significantly harmful to intermediate performance will not slow down the transition to green activities (that evidence shows we need to accelerate)? Please select all that you agree with:</p>	<ul style="list-style-type: none"> <li>• Distinguish different levels of environmental performance clearly throughout the taxonomy and in other instruments</li> <li>• Require continued improvement beyond the relevant investment plan</li> <li>• Require associated entity level transition strategy to understand the credibility of the intermediate transition</li> <li>• Recognise multiple ways of transition depending on type of Technical Screening Criteria</li> </ul>
3	<p>Do you consider that recognising/naming the significant harm performance level would be important?</p>	<ul style="list-style-type: none"> <li>• Yes</li> </ul>
3.1	<p>Please select the answer you agree with:</p>	<ul style="list-style-type: none"> <li>• agree with the staged approach in the report to first work with voluntary disclosures / guidance and in a later stage introduce mandatory reporting</li> </ul>
4	<p>In your view what would be the advantages and disadvantages of a ‘significantly harmful’ taxonomy as designed by the Platform (i.e. accompanied by an assessment of the existing and needed EU policy and legislative initiatives aimed at incentivising finance for urgent transition away from significantly harmful activities, for building climate-resilience and to support greening of the whole economy)?  Advantages – a ‘significantly harmful’ taxonomy would:</p>	<ul style="list-style-type: none"> <li>• improve the communication of transitions and transition plans on activity level</li> <li>• help companies to develop strategies and investment plans for moving away from significantly harmful performance levels and meeting environmental objectives</li> <li>• help markets define and develop instruments for financing the transition</li> <li>• enhance risk management frameworks</li> </ul>
	<p>Please elaborate on your answer on the advantages of a ‘significantly harmful’ taxonomy. Could advantages be further enhanced? If so how?</p>	<p>Transparency is of core essence since it allows for further education of the market participant on the real impact of the activity of both environment and social considerations. For a fuller picture, this however needs to be accompanied by a clear benchmarking against industry averages, recognized frameworks; with an indication of the required solutions to allow to bridge the gap to reach the necessary performance threshold level.</p> <p>In addition, the current EU taxonomy for environmental objectives is considered binary and unable to encourage investments and capital flows in transitions to sustainable business models for “non-green” activities. By introducing SH taxonomy, it will be possible to identify “intermediate performance levels” and to facilitate transitions from SH levels. This is an important and preferable point to review the existing EU taxonomy. This will also encourage companies to develop a business strategy for transition.</p>
	<p>Disadvantages – a ‘significantly harmful’ taxonomy would:</p>	<ul style="list-style-type: none"> <li>• negatively impact the ability of companies to raise finance for transition</li> <li>• accelerate transition risks and risks creating “stranded asset by legislation”</li> <li>• negatively impact banks with high shares of lending to certain companies both among retail customers and on the wholesale markets</li> <li>• disadvantage EU companies vs non-EU jurisdiction</li> </ul>

	Question	Answer
		- increase complexity, reporting burden
	Please elaborate on your answer on the disadvantages of a ‘significantly harmful’ taxonomy. How could they be addressed?	We appreciate the review of EU taxonomy in order to enhance transition, but it is necessary to consider not to mislead stakeholders in disclosures. For banks enhancing transition finance, their share of loans for SH activities will increase in the short term, but it is necessary to send correct messages to stakeholders. In addition, it is preferable to apply the SH taxonomy after a sufficient preparatory period as banks will need close dialogue with clients on transition plans. On the other hand, In SH taxonomy, some activities may be categorized as SH with no transition possibility even if they have potential to overcome the issues by future technology innovation. In addition, an excessive credit crunch in certain SH activities or an excessive concentration of credit in certain non-SH activities could raise a risk to financial stability. Even if SH taxonomy is to be developed, adequate and appropriate consideration should be given particularly for using it for prudential regulation.
5	Do you agree with the following statements? Please check all boxes that you agree with:	—
6	Do you consider recognising/naming the intermediate performance level useful to encourage mitigating significant harm?	• Yes
	Please explain your answer to question 6:	Activities categorized as green is limited under current Taxonomy Regulation. In order to enhance companies’ transition, it is important to define and support activities in “intermediate performance levels” and to support such transition plans. It is not always easy to reach SC levels, but by introducing “intermediate performance level” to evaluate the progress in transition we expect that it will enhance the mobilization of investments and capitals for the transition of activities that do not reach green but may contribute to green.
7	For activities that are in the intermediate performance space (in between significant harm and substantial contribution):  a) should all turnover from such activities be recognised as intermediate turnover, and all opex as intermediate opex?	• Don’t know / no opinion / not applicable
	Please explain your answer to question 7. a):	—
	b) should all capex be recognised as ‘intermediate capex’ irrespective of whether or not it improves environmental performance of the activity and by how much?	• Don’t know / no opinion / not applicable
	Please explain your answer to question 7. b):	To fully understand the risk of transition on the credit scoring of the entity, it is important to understand which activities could have a substantial negative effect on the environment without a pathway to significantly improve its environmental performance, thus potentially raising a risk of becoming stranded which would have an knock-on effect on the revenue of the business and ultimately its ability to service its debt.
8	What do you think are the essential conditions for recognizing such intermediate	• a) that the activity reaches the intermediate performance level, in other words does not do significant harm to that

	Question	Answer
	transitions for activities that can make a substantial contribution to the given environmental objective:	<p>particular environmental objective</p> <ul style="list-style-type: none"> <li>• b) in addition, that the activity continues to improve its environmental performance in order to stay in that intermediate performance level and not to do significant harm even if in the future the criteria are tightened.</li> <li>• c) in addition, that the activity continues to improve its environmental performance in order to reach substantial contribution (green) in the future</li> <li>• e) in addition, that the activity does no significant harm to any of the other environmental objectives, with the exception of adaptation (because failing to meet the do no significant harm criteria to adaptation means only a harm on the activity itself)</li> </ul>
	<p>You selected option b) in question 8.</p> <p>The criteria for ensuring that the activity will improve to reach substantial contribution should include to:</p>	<ul style="list-style-type: none"> <li>• have a transition plan in place</li> <li>• set a deadline for the transition</li> <li>• have the transition plan validated by the Board</li> <li>• publish the transition plan</li> <li>• audit the transition plan</li> <li>• disclose how the intermediate transition fits within the entity level transition strategy</li> <li>• other</li> </ul>
	Please specify to what else should the criteria include, in relation with option b) in question 8.	Be able to be benchmarked against industry and recognized frameworks.
	<p>You selected option c) in question 8.</p> <p>The criteria for ensuring that the activity will improve to reach substantial contribution should include to:</p>	<ul style="list-style-type: none"> <li>• have a transition plan in place</li> <li>• set a deadline for the transition</li> <li>• have the transition plan validated by the Board</li> <li>• publish the transition plan</li> <li>• audit the transition plan</li> </ul>
	Please specify to what else should the criteria include, in relation with option c) in question 8:	—
9	Do you have other suggestions for extending the taxonomy framework for significantly harmful activities, intermediate performance, intermediate transition?	<p>Among the Significantly harmful activities, we have concerns of “Disadvantages” responded in Question 4 above regarding the classification of 'always Significantly harmful' (no technical option to transition to an environmental performance not causing signal harm). In order to identify the “intermediate performance levels” for supporting “intermediate Transition”, it is sufficient to use the SC levels and the DNSH criteria under the Delegated Act. We believe that classification of “always SH” activities is less meaningful and has greater disadvantages from the standpoint of supporting transition.</p> <p>Some sectors which is not currently covered by the Delegated Act (DA) (e.g. natural gas) and sectors for which the DNSH criteria are not defined in the DA should also be covered by the “intermediate transition”.</p>
10	<p>In your view what would be the advantages and disadvantages of a ‘no significant (environmental) impact’ taxonomy?</p> <p>Advantages – a ‘no significant environmental impact’ taxonomy would:</p>	—

	Question	Answer
	Please elaborate on your answer on the of advantages a ‘no significant (environmental) impact’ taxonomy. Could advantages be further enhanced? If so how?	We cannot find any advantages in defining NSI taxonomy which has very little impact on the environment either positively or negatively, and rather it takes time and make taxonomy complex. From pros and cons of NSI extension described in the draft report, it is unclear whether NSI is beneficial for SMEs. Also, it is difficult to identify and prove economic activities which do not contribute to DNSH nor SC.
	Disadvantages – a 'no significant environmental impact' taxonomy would:	• other
	Please elaborate on your answer on the of disadvantages a ‘no significant (environmental) impact’ taxonomy. How could they be addressed?	From pros and cons of NSI extension described in the draft report, it is unclear whether NSI is beneficial for SMEs. Also, it is difficult to identify and prove economic activities which do not contribute to DNSH nor SC.  We also agree with the “Cons” of NSI as stated in the draft report: - Scientific basis may not be well defined for all sectors. - Potential challenge of choosing which sectors to develop criteria for first and then how to maintain a list of NSI activities up-to-date in the dynamic services sector.
11	Can you give examples of activities which you think would be considered as NSI?	—
12	If there was to be an extension of the taxonomy to address NSI activities, should it be a requirement for companies or investors wishing to report activities under the NSI taxonomy to first participate in an environmental labelling or certification scheme (such as EMAS) to validate minimum levels of environmental performance?	• Don’t know / no opinion / not applicable
	Please explain your answer to question 12:	—
13	Do you consider it would be helpful if the Platform prepared non- binding guidance on NSI activities which could be published by the Commission for voluntary use by taxonomy users?	• Don’t know / no opinion / not applicable
13.1	If you consider it would be helpful, what should be the scope of such guidance, for instance in relation to minimum standards of environmental performance?	—
	Please explain your answer to question 13:	—
14	Are you in favour of a phased approach where NSI could be recognised as a generic category (through guidance) without L1 change?	• Yes but it should be done in future only
	Please explain your answer to question 14:	We believe that supporting “intermediate transition” should be prioritized and introducing the NSI category is not a priority (or unnecessary).
15	Prior to any L1 change (if at all), do you consider that the Platform should recommend to include some NSI activities in the taxonomy by e.g. creating a generic category for 'green' service providers under the adaptation or other objectives?	• No

Question	Answer
Please explain your answer to question 15:	—
Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) below. Please make sure you do not include any personal data in the file you upload if you want to remain anonymous.	<p>We welcome the proposal in this report by the Platform on Sustainable Finance which focuses on facilitating transition finance for economic activities which cannot reach green performance, as we have provided our opinion since 2019 on EU Taxonomy that it should support not only purely green economic activities but also economic activities aimed at the transition to a low-carbon economy.</p> <p>However, there still are various challenges in how companies in sectors engaging in categorized as significantly harmful (SH) activities can develop reliable transition strategies and raise funds by using the criteria defined in the extended taxonomy.</p> <p>The financial sector in Japan, like in many other jurisdictions, plays an important role to finance the energy transition, but also to manage the risks related to this transition. From the viewpoint of sustainability, Japanese banks have been supporting our clients for their sustainable growth by working together to explore solutions to medium- to long-term environmental and social issues in their businesses, as well as providing support for the incubation and expansion of large-scale business opportunities in the future.</p> <p>That includes continuous dialogue with our clients in carbon intensive sectors to explore technological solutions for overall reductions in GHGs.</p> <p>We believe a globally consistent ESG policy, regulatory and disclosure framework are key in this process. Common understanding through definitions (e.g. taxonomy) is indeed important, but as we have previously stated in our response to the previous consultations, we believe taxonomies need to be flexible enough to foster innovation and facilitate transition. If we imagine the carbon neutral world we have committed to, we agree sustainable economic activities defined under the EU taxonomy should have become the majority of the economy by 2050.</p> <p><u>Comments on “Significantly Harmful” Taxonomy</u></p> <p>The extended “significantly harmful” (SH) taxonomy should avoid discouraging investment towards companies engaging in activities defined as SH and increase in costs. Therefore, it is important that SH taxonomy should be accompanied by the guidance on how companies in sectors where transition is difficult can develop reliable transition strategies and raise funds by using the criteria defined in the extended taxonomy.</p> <p>Also, the SH taxonomy would have additional complexity to the existing taxonomy and increase reporting burden. In order to identify the “Intermediate Performance levels” for supporting “Intermediate Transition”, it is sufficient to use the “substantial contribution” (SC) and “do no significant harm” (DNSH) criteria under the Delegated Act and will not need “always SH” taxonomy.</p> <p><u>Comments on “No Significant Impact” Taxonomy</u></p> <p>While we believe that the taxonomy extension to support transition should be prioritized, we do not see sufficient benefit in adopting the “no significant impact” (NSI) taxonomy at this stage considering the additional complexity to the existing taxonomy and regulatory burdens.</p>

(End)