September 13, 2019

Comments on *Taxonomy Technical Report*
issued by the Technical Expert Group on Sustainable Finance

Japanese Bankers Association

We, the Japanese Bankers Association (JBA), would like to express our gratitude for this opportunity to comment on *Taxonomy Technical Report* that call for feedback issued by the Technical Expert Group on Sustainable Finance (TEG) on June 18, 2019. We respectfully expect that the following comments will contribute to work by the TEG and the European Commission (EC).

1. Usability of the Taxonomy

<Considerations in using the Taxonomy>

- The taxonomy should not be used for penalization purposes that may, for example, result in restricting financing for non-Taxonomy-eligible project, whereas the taxonomy is to be used for fostering and supporting Taxonomy-eligible projects. Adequate care must be taken to avoid creating a situation where only those in the green list are "good" and the others, not in the green list, are "bad”.
- For the purpose of differentiating financial risks associated with taxonomy-eligible projects, accumulated data for those risks is far from sufficient. If, therefore, market participants are subject to additional regulations that go beyond requiring disclosures, for example, requiring financial institutions under the prudential framework to adjust risk weights based on the EU Taxonomy, careful consideration should be given in light of the sufficiency of accumulated data and data analysis.
- With regard to funding by non-EU issuers, following exception should be developed for green assets that substantially contribute to a reduction in CO_2 emissions, even if such assets do not meet EU Taxonomy criteria: “If green assets comply with national GHG emission reduction standards established based on conditions unique to each country, these assets shall be deemed as green bonds even if they are not directly eligible to EU Taxonomy.” In addition, a disclosure platform should be also provided to financial institutions so as to enable them to determine whether non-EU green

bonds comply with the exceptions set out in the EU Taxonomy.

<Review of the use of the Taxonomy (disclosure requirement)>

- For EU subsidiaries of a certain size of non-EU banks to comply with disclosure requirement under the EU Non-Financial Reporting Directive (statutory requirement), disclosures by recipients of funds (hereinafter referred to as " borrowers and investees ") should be further enhanced. In particular, to ensure accurate disclosures of corporate loans that are not linked to a certain project, it would be necessary to require borrowers and investees to provide information about their use of funds in addition to imposing the disclosure requirement on financial institutions. Specifically speaking, we would like to propose to require borrowers and investees, who receive external funding exceeding a certain amount, to provide information about their use of funds.

2. Future Development of the Taxonomy

- The development of the taxonomy is effective for promotion of sustainable finance, and it is meaningful to enable it to function well. While we understand that the proposed taxonomy regulation is applied at the EU level, it may serve as a reference case for considerations by other jurisdictions, and may have impacts on pricing of global investments and loans through changes in directly-affected EU financial institutions' investment and financing activities. It is therefore important to consider and design a system by taking into account such factors.
- We are concerned that, if the taxonomies differ significantly and are not harmonised across jurisdictions, regulations and systems that rely on the taxonomies may be fragmented.
- On the other hand, if extremely strict taxonomies are established in accordance with standards established in developed countries and applied as “one size fits all” standards, there is a possibility that the policy for achievement of the Paris Agreement and a transition to low-carbon society in each country and jurisdiction is not implemented flexibly.
- Sustainable finance (taxonomy) should support not only purely green economic activities but also economic activities aimed at the transition to a low-carbon economy. For example, for emerging markets (developing countries) where their levels of economic maturity differ, it is important to include, into their taxonomies, a

wide range of activities that contribute to improving their current situations in order for such markets to foster the transition to a low-carbon economy. The level of activities required for those markets should not be the same as the ones required for developed countries.

- A well-balanced framework should be developed for both developed countries and emerging countries by sharing a universal and global principle, such framework shall lead to accommodate a variety of taxonomies developed in a harmonized way to the extent possible, and these taxonomies should be introduced in ways that reflect the economic or energy-related situations of each country and jurisdiction.
- It is desirable that the TCFD recommendations be adopted as the “global principle,” and be regarded as a foundation to promote sustainable finance in each jurisdiction. Each country shall develop its own taxonomy in line with such common framework and principle.
- An excessive and prescriptive taxonomy might lead to impede innovation. In order to create an environment for fostering creativity and innovations of private sector, we consider that taxonomy should be a flexible framework and be regularly reviewed to reflect current trends.