

March 11, 2021

Green Finance Industry Taskforce



Japanese Bankers Association

JBA high level comments on the Green Finance Industry Taskforce Taxonomy Consultation paper

Dear Sirs/Madams:

The Japanese Bankers Association¹ (JBA) appreciates the opportunity to provide our comments on Green Finance Industry Taskforce's (GFIT) consultation paper setting out a taxonomy for Singapore-based financial institutions issued on Jan.28th 2021.

The JBA welcomes GFIT's initiative to establish a taxonomy for green and transition activities and climate change risk management framework and in particular taking into consideration of applying across the ASEAN region. We appreciate that GFIT comprises of representatives from the industry, including a member firm of the JBA, and would like to pay respect to MAS for leading this initiative, which reflects the views of not only domestic but global financial institutions.

The JBA member banks have significant operations in Singapore and no doubt this consultation paper will impact the future discussions not only within the ASEAN region but on a global scale. Our member banks have contributed to the consultation response through the Association of Banks in Singapore, but given the importance of this subject and implications of this initiative to the Asian region, we would like to provide some high-level comments in this letter and hope this will contribute to the policy debate going forward.

Background

Last year in October, the Japanese Prime Minister Yoshihide Suga announced the government's commitment to becoming a carbon neutral society by 2050. The banking sector in Japan, like in many other jurisdictions, plays an important role to finance the transition, but also there is a need to manage the risks related to this transition. From the viewpoint of sustainability, Japanese banks have been supporting client's sustainable growth by working together to explore solutions to medium- to long-term environmental and social issues in their businesses. These efforts require continuous dialogues with our clients across the board, including those in the carbon intensive sectors, to explore technological solutions for overall reductions in GHG emissions.

We believe a globally consistent but yet flexible environmental policy, regulatory and disclosure framework to further accelerate this undertaking in the private sector and this consultation paper strikes the right balance in terms of two aspects;

Importance of transition taxonomy

We welcome the proposed approach of introducing a traffic light system as an intermediate step to allow the private sector to familiarize the concept and prepare themselves for the taxonomy and shift their strategies toward the sustainable development.

Common understanding through definitions is indeed important but we believe taxonomies need to be flexible enough to foster innovation and facilitate transition which is a key feature in this consultation paper. Taking into

¹ The Japanese Bankers Association is the leading trade association for banks, bank holding companies and bankers associations in Japan. As of March 11, 2021, the JBA has 115 Full Members (banks), 3 Bank Holding Company Members (bank holding companies), 73 Associate Members (banks & bank holding companies), 58 Special Members (regionally-based bankers associations) and one Sub-Associate Member for a total of 250 members.

consideration banks business model and proportionality, a flexible approach should be allowed and to this point, each definition should be high-level and non-exhaustive.

The adoption of the yellow category in the “Traffic light system” creates a “richer” taxonomy that does not take a binary approach. The JBA believes taxonomy should be positioned as a framework to facilitate transition to a carbon neutral society. While we agree with the need to establish a taxonomy with numerical criteria/thresholds to avoid “green wash”, we are concerned that using the taxonomy only to judge compliance based on the current technology/output would limit the possibility of future development and innovation. Inflexible taxonomy would not only distort or crowd out capital flows into the projects labeled as not currently “green” but may stifle innovation and technological breakthrough. Therefore, as we have insisted in other regional public consultations², it is our strong view that taxonomy should support not only “pure green” activities/technologies but also the efforts aiming to “become green/greener”. In other words, taxonomy should take a gradual approach to support transition/innovation to become greener. This gradual approach should be encouraged to be used in the context of supervision, disclosure and product development and this proposal makes room for that to take place.

The need for a globally consistent taxonomy and its usage

The consultation paper refers to the taxonomy of other regions and convergence of international standards. We welcome that the taxonomy is intended to be used not only in Singapore but also in the ASEAN region. Needless to say, climate change is a global challenge and cannot be solved by a single country alone.

If each country decides to create their own taxonomy, this may lead to fragmentation and therefore, we would request MAS and overseas financial authorities to coordinate to standardize the framework while allowing flexibility.

We believe the following aspects are critical in developing widely-used taxonomy:

- (1) acceptable not only to financial institutions but to all industry;
- (2) designed taking into account a cost effectiveness and implementability without undue burdens;
- (3) ensure transparency and predictability;
- (4) embrace diversity in transition pathway depending on energy mix and economic structure in the county;
- (5) based on science; and
- (6) allow the room for flexibility and evolution.

The next important question is how we utilize the taxonomy with the common goal of achieving carbon neutrality in the earliest timeline. Taxonomy can help banks to facilitate sustainable finance, manage risks appropriately, and provide disclosures to outside parties, so is an important foundation of critical actions banks need to take to tackle climate change.

We note that international fora, such as the Financial Stability Board, the Basel Committee for Banking Supervision, and the Network for Greening the Financial System have started the discussions of putting together a standards/principles of risk management framework and disclosures. Taxonomy will be used in this exercise, as discussed above, and for this reason, we believe the efforts to harmonize the taxonomy across regions will become more important and relevant.

We hope you find our comments constructive and useful in further advancing this critical agenda.

(End)

² July 15, 2020 JBA Comments on European Commission’s “Consultation on the Renewed Sustainable Finance Strategy” - <https://www.zenginkyo.or.jp/fileadmin/res/en/news/news200715.pdf>

February 3, 2021 JBA Comments on EBA discussion paper: “Management and Supervision of ESG risks for credit institutions and investment firms” - <https://www.zenginkyo.or.jp/fileadmin/res/en/news/news210203.pdf>