

September 24, 2021

Platform on Sustainable Finance
European Commission
1049 Brussel, Belgium



Japanese Bankers Association

JBA comments on the Platform on Sustainable Finance's preliminary recommendations for technical screening criteria for the EU taxonomy

Dear Sirs/Madams:

The Japanese Bankers Association¹ (JBA) appreciates the opportunity to provide our comments on the Platform on Sustainable Finance's preliminary recommendations for the EU taxonomy² technical screening criteria released on August 3, 2021.

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

We welcome the extensive discussion in the EU and its proposal on the Technical Screening Criteria (hereafter "TSC").

We understand that all four environmental objectives (namely "the sustainable use and protection of water and marine resources," "the transition to a circular economy," "pollution prevention and control," and "the protection and restoration of biodiversity and ecosystem"), as well as "climate change mitigation" and "climate change adaptation," are important to achieve a sustainable society.

Needless to say, these challenges need a global solution. Separate and fragmented implementation of multiple frameworks in each jurisdiction will lead to the disruption to the initiatives of each corporation. Therefore, the EU is requested to cooperate with other jurisdictions to establish a global framework. We would like the EU to consider the following comments.

Usability of 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 should be used to foster and support taxonomy-eligible projects. The EU should avoid creating a trend where only those in the green list are "good" and the others that are not in the green list are "bad."

Our intention is not to make a list, but to use a list. To use the list effectively, the list should be simple and easy to understand. The proposed TSC is very complex and difficult to understand. It seems to be far from being user-friendly as it is too detailed to read through. The EU has already proposed a regulatory framework reflecting EU Taxonomy, such as Pillar 2 or Pillar 3 of the Basel framework. Then, the more complex EU taxonomy is, the harder it is to use. For example, it is realistically impossible to disclose the Green Asset Ratio (GAR) based on the TSC.

In addition, it is unclear to which of the six environmental objectives an economic activity will ultimately be classified. There could be a case where an activity is compliant with plural objectives of taxonomy. In this case,

¹ The Japanese Bankers Association is the leading trade association for banks, bank holding companies and bankers associations in Japan. As of September 24, 2021, JBA has 114 Full Members (banks), 3 Bank Holding Company Members (bank holding companies), 75 Associate Members (banks & bank holding companies), 58 Special Members (regionally-based bankers associations) and one Sub-Associate Member for a total of 251 members. Several of its largest member banks are active participants in the EU financial markets.

² https://ec.europa.eu/info/publications/210803-sustainable-finance-platform-technical-screening-criteria-taxonomy-report_en

how would the activity be treated from the regulatory perspective, including the GAR disclosure? How to use the taxonomy, or how to apply the six objectives to economic activities is completely unclear.

Furthermore, compared with activities such as reducing GHG emissions, it is difficult to set quantitative criteria for activities providing a positive impact to the economy (e.g. enhancing diversity). We would like to request the EU to establish a practical framework on how an activity is evaluated and determined as “taxonomy-compliant.”

Future Development of the Taxonomy

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 or developing countries with different levels of economic maturities, it is important to include a wide range of activities that contribute both to improving their current economic situations and fostering the transition to a low-carbon economy into their taxonomies.

From this perspective, we welcome the proposed “significant harm taxonomy” which contains the essence of transition that has been proposed during the consultation on “Platform on Sustainable Finance's draft report on taxonomy extension options linked to environmental objectives” (hereafter “extended taxonomy”). The JBA submitted our response³ to the consultation on the extended taxonomy, and we request the inclusion of the essence of transition in this TSC.

A well-balanced framework should be developed for both developed 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.

An excessive and prescriptive taxonomy might lead to impede innovation. In order to create an environment for fostering creativity and innovations of the private sector, we consider taxonomy to be a flexible framework and be regularly reviewed to reflect current trends.

This TSC document consists of more than one thousand pages. We understand that all documents will be a part of a delegated act. For this, we request the EU to develop clear instructions and to allow enough time prior to implementation of the delegated act.

(End)

³ <https://www.zenginkyo.or.jp/fileadmin/res/abstract/opinion/opinion330840.pdf>