



Carbon Neutrality Initiative 2023

- Provisional English version -

16 February 2023

JAPANESE BANKERS ASSOCIATION

Foreword (Announcement of the Carbon Neutrality Initiative 2023)

Last year, multiple risk factors, including heightened geopolitical risks on a global scale, resulted in increased inflationary pressure on resources, food, and other commodities triggered by Russia's invasion of Ukraine.

Japan depends on foreign countries for most of its natural resources, and soaring energy prices have had a major impact on businesses and households. We recognise that the banking industry must play a greater role than ever before in helping to achieve the Green Transformation (GX) of Japan's entire social economy.

At the 27th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP27) in November 2022, the "Sharm el-Sheikh Implementation Plan"¹ was agreed upon based on the "Glasgow Climate Pact"², which was adopted at the COP26 in November 2021, making it clear that the focus was shifting from pledges and commitments toward decarbonisation to the implementation of concrete efforts.

In Japan, the "Basic Policy for the Realisation of GX"³ was compiled by the GX Implementation Council in December 2022. The policy outlines the measures to be taken over the next 10 years to transform Japan's industrial and social structures and realise a society in which all people, including future generations, can live with hope.

The Japanese Bankers Association (JBA) has also been promoting various activities based on its "Carbon Neutrality Initiative", which was compiled in December 2021. The JBA has reviewed its past activities and conducted an inventory/revision of the Initiative.

The JBA will continue to contribute to the realisation of carbon neutrality and net zero emissions in Japan through the continuous implementation of this Initiative in cooperation and collaboration with various stakeholders, including clients, relevant ministries and agencies, and relevant industrial organisations.

Foreword (December 2021 "Carbon Neutrality Initiative")

In October 2020, the Japanese government declared its pledge to achieve carbon neutrality by 2050 and in April 2021 set its interim target to reduce GHG emissions by 46% from the FY2013 levels by FY2030. In response to the commitments, a number of projects for carbon neutrality are currently being carried out in both public and private sectors in Japan.

At COP26 held in November 2021, global leaders reaffirmed their intent to pursue efforts to limit the temperature increase to 1.5° C in accordance with the Paris Agreement, and agreed to invite further actions over the next 10 years to 2030 (which is being called a “critical decade”), taking into account IPCC’s Sixth Assessment Report⁴.

The JBA believes that it is also an urgent and critical issue for the Japanese banking industry to work on reducing its own GHG emissions and to provide financial support to the economy to achieve a “Just Transition” to carbon neutrality / net zero emissions. There is also increasing international pressure on financial institutions to manage climate-related financial risks, including physical and transition risks that impact their portfolio. Supporting clients’ efforts toward carbon neutrality / net zero emissions is crucial for banks from the viewpoint of not only dealing with climate-related financial risks, but also maintaining the international competitiveness of the Japanese economy.

Against this backdrop, the JBA set out the “Carbon Neutrality Initiative”, which identifies the JBA’s key policies and priorities up to 2030 to further strengthen the efforts of the Japanese banking industry toward achieving carbon neutrality. The JBA also established the Sustainability Promotion Office in July 2021 to foster those initiatives.

For this Initiative, the JBA carried out interviews with key stakeholders including its member banks, companies in hard-to-abate sectors, leading companies actively working toward carbon neutrality and regional companies. The findings and input from the interviewees are reflected in this Initiative.

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Overview of the Carbon Neutrality Initiative

- Achieving carbon neutrality by 2050 is a global commitment by more than 150 countries including Japan, which may bring about a global transformation to the industrial structure and the entire economy as a whole. While such a transformation may provide significant growth opportunities, a disorderly transition to carbon neutrality could also bring about financial risks for banks.
- Against this backdrop, the Carbon Neutrality Initiative provides a foundation for the JBA’s policies and actions for a society/economy-wide “Just Transition”⁵ to carbon neutrality. The JBA will continue to review its focus, as necessary.

Objective

Support and achieve a “Just Transition” to carbon neutrality by 2050

Key Policies

Key policies to support and accelerate JBA member banks’ efforts for their clients’ orderly transition to carbon neutrality

1 Financial
intermediation

2 Cooperation with
industrial sectors

3 Public
advocacy

4 International
discussions

Key Priorities

Key priorities in the next three years to achieve the 2030 interim GHG reduction targets

1 Engagement

2 Assessment

3 Sustainable
finance

4 Climate-related
disclosure

5 Climate-related
financial risks

Key Policies

- Achieving carbon neutrality requires significant efforts by both the public and private sectors globally and nationally. It is therefore essential to work collaboratively, not just within the banking industry alone, but also with industrial sectors, the government and the international community.
- The JBA, as the premier Japanese banking association, is committed to playing a leading role in such cooperation with key stakeholders, working collaboratively to achieve carbon neutrality by 2050.

Key Policies		Our Approach	Initiatives
1	Financial intermediation	<ul style="list-style-type: none"> ● The banking industry, as the key financial intermediary in Japan, has a <u>social responsibility</u> to provide financial support to the economy to achieve a Just Transition. ● At the same time, banks are expected to effectively <u>manage climate-related financial risks</u> for their financial soundness and to meet the <u>stakeholders' expectations</u>. 	<ul style="list-style-type: none"> ● Host seminars inviting relevant ministries, agencies and experts. ● Run an information platform where JBA member banks can refer to key policies and documents by theme. ● Continue to respond to JBA member banks' needs and challenges. Develop the JBA's capabilities and expertise.
2	Cooperation with industrial sectors	<ul style="list-style-type: none"> ● The JBA will carry out <u>sector-to-sector engagement with relevant industrial organisations</u> to collaboratively achieve carbon neutrality. ● <u>The JBA will act as a hub</u> for sharing issues between the banking industry and industrial sectors. 	<ul style="list-style-type: none"> ● Deepen collaboration and cooperation with relevant industrial organisations, and consider cross-industrial measures and initiatives. ● Host seminars inviting speakers from industries to foster mutual understanding with those industrial sectors / Explain the banking industry's initiatives at seminars hosted by relevant industrial organisations.
3	Public advocacy	<ul style="list-style-type: none"> ● The JBA will actively engage in public advocacy, sharing <u>financial issues and challenges for carbon neutrality and a Just Transition</u>. ● In areas where concerted efforts are required for Japan's international competitiveness, <u>the JBA will work with relevant industrial organisations</u> as necessary. 	<ul style="list-style-type: none"> ● Participate in relevant government councils and share the banking industry's views. ● Advocate policy recommendations in relation to climate policy/rule-making. ● Share the banking industry's initiatives and challenges with relevant ministries and agencies.
4	International discussions	<ul style="list-style-type: none"> ● <u>The JBA will actively participate in and contribute to international policy/rule-making</u>. ● It also promotes close cooperation with the <u>International Banking Federation (IBFed) and other bankers associations</u> to address common challenges and share good practices. 	<ul style="list-style-type: none"> ● Enhance the international presence of Japanese banks in the sustainable finance area. ● Actively participate in international discussions on policy/rulemaking in cooperation with Japanese authorities. ● Continuously collaborate and cooperate with the IBFed and foreign bankers associations in other jurisdictions.

[Key policy #1] Financial intermediation

- The banking industry, as the key financial intermediary in Japan, has a social responsibility to provide financial support to the economy to achieve a Just Transition.
- At the same time, banks are expected to effectively manage climate-related financial risks for their financial soundness and to meet the stakeholders' expectations.

Funds required for carbon neutrality and the role of banks

Required funds	Global	IEA ⁶	USD 4 trillion annually by 2030	Getting the world on track for net zero emissions by 2050 requires nearly USD 4 trillion additional investment annually by 2030 from current levels (USD 1 trillion on average during 2016 to 2020).
	Japan	Clean Energy Strategy ⁷	JPY 150 trillion over the next 10 years	Approximately JPY 150 trillion (approx. JPY 17 trillion in a single year in 2030) of investment will be needed over the next 10 years to achieve carbon neutrality by 2050, under certain assumptions. (*estimation and only key areas of investment)

The banking industry, as the key financial intermediary, needs to play a new role to support clients' Just Transition in addition to the traditional roles.

Traditional role

Engagement in lending and investment activities to meet funding needs for clients (e.g., working capital, capital investments).

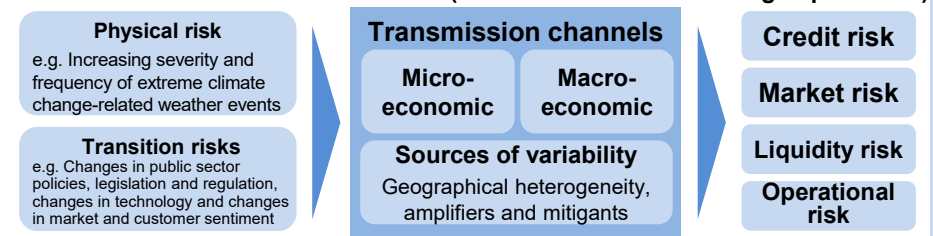
New role

Engagement in supporting efforts for green initiatives, transition and innovation not only by providing funds

Potential impacts of climate-related risk on banks

Climate-related risk drivers can be classified into either physical or transition risks. These risk drivers affect banks' financial risks via micro- and macroeconomic transmission channels.

Financial risks from climate risk drivers (Basel Committee on Banking Supervision⁸)



The Basel Committee on Banking Supervision (BCBS) released "Principles for the effective management and supervision of climate-related financial risks". These principles **require banks to incorporate climate-related risks into their risk management frameworks and assess the capital and liquidity adequacy for such risks⁹**.

The JBA supports the efforts by its member banks to meet such significant funding needs and enhance their risk management of climate-related risks, both of which require cross-organisational efforts.

Approach

Host seminars inviting relevant ministries, agencies and experts.

Run an information platform where JBA member banks can refer to key policies and documents by theme.

Continue to respond to JBA member banks' needs and challenges. Develop the JBA's capabilities and expertise.

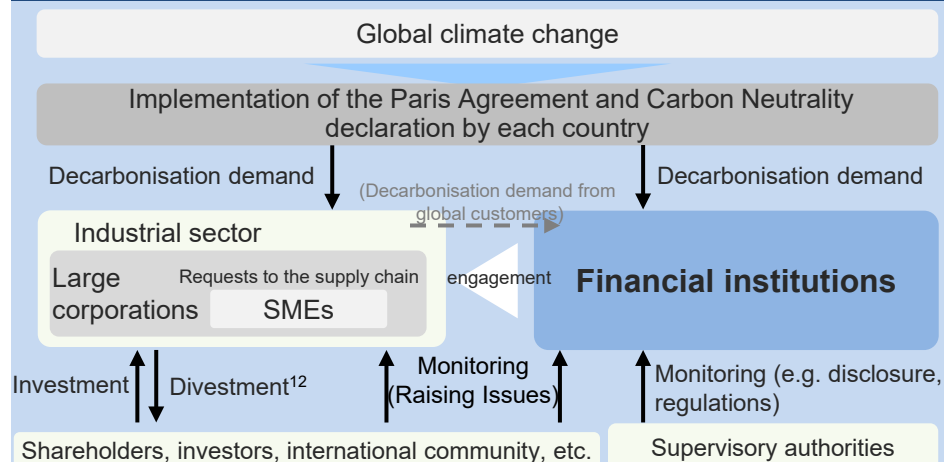
[Key policy #2] Cooperation with industrial sectors

- The JBA will carry out sector-to-sector engagement with relevant industrial organisations to collaboratively achieve carbon neutrality.
- The JBA will act as a hub for sharing issues between the banking industry and industrial sectors.

Challenges for industrial sectors¹⁰

Internal	<ul style="list-style-type: none"> Challenges for reaching a consensus within the company in setting company-wide targets.
External	<ul style="list-style-type: none"> Challenges for calculating Scope 3 emissions¹¹ (A number of estimates and data to improve accuracy are required.) Reducing GHG emissions throughout the supply chain including SMEs requires significant efforts.
Technological	<ul style="list-style-type: none"> In some industrial sectors, key decarbonisation technologies have not been established yet. Even if technologically feasible, it may be challenging to reflect the higher cost into their product pricing.
Cost	<ul style="list-style-type: none"> While decarbonisation may bring additional cost/investment burdens, it is uncertain whether those can be offset by additional revenue. Ensuring competitive fairness between companies promoting decarbonisation and those not dedicating efforts.

Environment surrounding industrial sectors and banking industry



Achieving Carbon Neutrality by 2050 is a challenging task, and there are many industries that cannot achieve it immediately. In order for banks to understand clients' initiatives and challenges, it is necessary to work together and cooperate with industrial sectors not only at the corporate level, but also at the sector-to-sector level.

Approach

Deepen collaboration and cooperation with relevant industrial organisations, and consider cross-industrial measures and initiatives.

Host seminars inviting speakers from industries to foster mutual understanding with those industrial sectors / Explain the banking industry's initiatives at seminars hosted by relevant industrial organisations.

[Key policy #3] Public advocacy

- The JBA will actively engage in public advocacy, sharing financial issues and challenges for carbon neutrality and a Just Transition.
- In areas where concerted efforts are required for Japan's international competitiveness, the JBA will work with relevant industrial organisations.

Policy measures for achieving Carbon Neutrality

Key policy measures under the Basic Policy for the Realisation of GX (Financial, etc.)

(Realisation and implementation of growth-oriented carbon pricing concept)

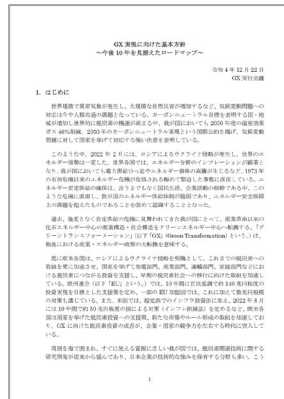
- Massive upfront investment support through "GX Economic Transition Bonds" (tentative) (investment promotion measures integrated with regulations and public support)
- Incentives for upfront GX investment through carbon pricing
- Implementation of new financial instruments

(Global strategy)

- Leading the creation of green markets and global cooperation in innovation to contribute to the realisation of GX on a global scale

(Promoting GX throughout society)

- Boosting a "Just Transition"
- Promoting GX from the demand side
- Promoting GX of SMEs



Key government's councils (As of December 2022)

JFSA*	METI*	MOE*	Council
✓	Observer	Observer	Expert Panel on Sustainable Finance
✓	Observer	Observer	Working Group on Financial Institutions' Efforts towards the Decarbonisation of the Economy
✓	Observer	Observer	Working Group on Impact Investment
✓	✓	✓	Taskforce on Preparation of the Environment for Effective Transition Finance
—	✓	—	Taskforce for Formulating Roadmaps for Promoting Transition Finance in the area of Economy and Industry
✓	✓	✓	Study Group on Financing from the Private Sector to Help Corporate Initiatives for GX in Industries
Observer	Observer	✓	ESG Finance High Level Panel
Observer	Observer	✓	Green Finance Study Group

(Reference) Recent policies in other countries

U.S.	Decided to invest USD 369 billion over the next 10 years through tax credits and subsidies ¹³ (August 2022) Capital investment for the introduction of clean energy and the manufacturing of solar panels, and support for the purchase of EVs
EU	Green Deal Investment Plan providing EUR 1 trillion from public and private sources over the next 10 years ¹⁴ (April 2020) Support for improvement in energy efficiency of buildings and introducing clean energy

Achieving the targets set out in the Paris Agreement requires concerted efforts by the international community. Japan needs to mobilise all available policy measures to achieve carbon neutrality and for a Just Transition. Those are also the keys for realising a "positive cycle of economic growth and the environmental protection", thereby strengthening international competitiveness through business transformation.

Approach

Participate in relevant government councils and share the banking industry's views.

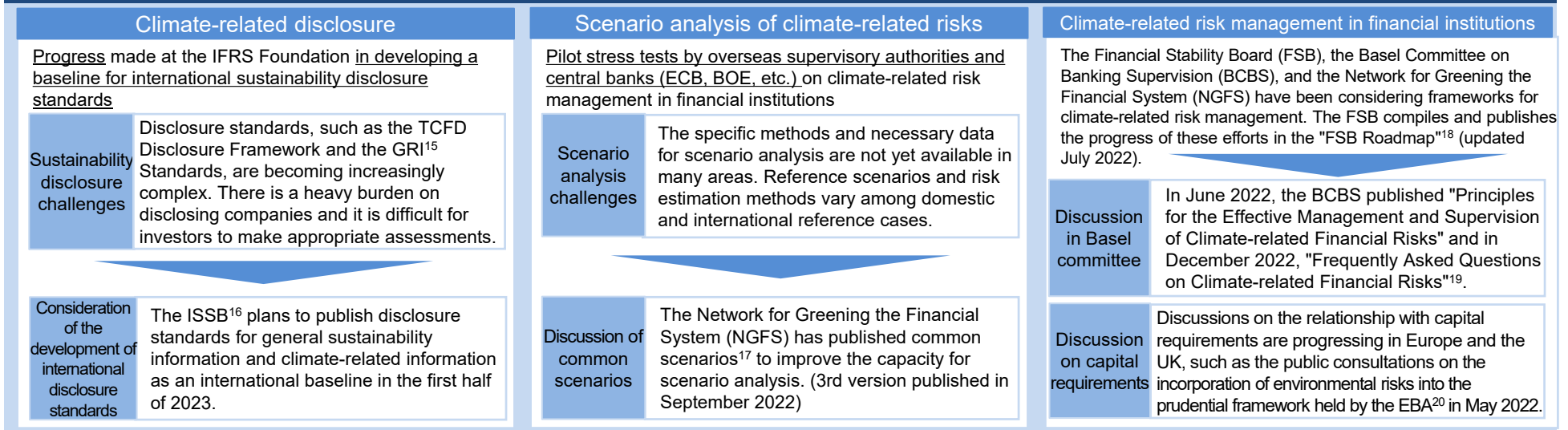
Advocate policy recommendations in relation to climate policy/rule-making.

Share the banking industry's initiatives and challenges with relevant ministries and agencies.

[Key policy #4] International discussions

- The JBA will actively participate in and contribute to international policy/rule-making.
- It also promotes close cooperation with the International Banking Federation (IBFed) and other bankers associations to address common challenges and share good practices.

International discussions on investment alignment with climate issue



There are growing trends of global alignment, integration and standardisation of rules, as well as extraterritorial application of certain jurisdictional rules. In order to ensure Japan's international competitiveness, it is important to actively participate in international discussions sharing Japan's view.

Approach

Enhance the international presence of Japanese banks in the sustainable finance area. (e.g., internationally share the Japanese government's and banks' efforts)

Actively participate in international discussions on policy/rulemaking in cooperation with Japanese authorities. (e.g., share views at international conferences, provide comments to public consultations)

Continuously collaborate and cooperate with the IBFed and foreign bankers associations in other jurisdictions.

Major Progress in Key Priorities

■ The JBA released explanatory documents about major initiatives on Japanese banking Industry in June 2022. A special website and materials on climate were also released to enhance engagement with clients. In addition, the JBA hosted study sessions for its member banks (“JBA CNI Compass Program”) 13 times, and submitted comments on 27 domestic and international public consultations.

Key Priorities		Action Plan	Major Progress (Corresponding Action Plan Number)
1	Engagement	<ol style="list-style-type: none"> Publish explanatory documents regarding the banking industry's efforts and their background in order to facilitate clients' understanding on the banks' intentions of engagement. [By the end of 2022] Host study sessions, inviting stakeholders such as relevant industrial organisations and ministries to better-understand sector-specific action plans and economic/technological challenges. [Initiated in FY2021] 	<ul style="list-style-type: none"> February: Explained the banking industry's efforts at a seminar hosted by the Tokyo Chamber of Commerce and Industry. (7) April: Released "JBA CNI Knowledge Platform" on the JBA member banks-only website, which includes a compilation of global, regional and domestic assessment guidance/criteria. (3) June: Published "Banking Industry's Efforts to Address Climate Change", explanatory documents for customers (updated in August). (1), (6) June to November: Participated in a research and study project by the International Banking Federation (IBFed) (followed by a research report published by IBFed in November²¹). (11) December: Published "Toward the Realisation of Decarbonisation in concert with the Industrial Sector", a special website on the banking industry's efforts to address climate change. (1), (6)
2	Assessment	<ol style="list-style-type: none"> Gather information of available assessment guidance/criteria. (global, regional and domestic) [By the end of FY2021] Share examples of leading cases/examples. [Start from 2022] Participate and advocate in relevant government councils. [On-going] 	<ul style="list-style-type: none"> January 2023: Released "First Steps Toward Decarbonisation", a material to support engagement between bank representatives and their clients. (1) Year round: Hosted study sessions for our member banks (“JBA CNI Compass Program”) 13 times inviting stakeholders, such as relevant industrial organisations and ministries, as speakers. (2), (4), (7), (10), (11), (12)
3	Sustainable finance	<ol style="list-style-type: none"> Publish brief materials explaining general sustainable finance categories, mechanisms and necessary actions. [By the end of 2022] Cooperate with SME-related organisations to advocate for support programs to complement the private sector's efforts. [On-going] 	<ul style="list-style-type: none"> 1st: Support for SMEs (7) 2nd to 8th: Roadmap by sector (2) 9th: Response and adaptation to climate change in financial institutions (2), (12) 10th: PCAF Standards (4), (10) 11th: COP27, trends in international initiatives (2), (4), (11) 12th: MUFG Transition Whitepaper (4) 13th: Climate change and biodiversity (11)
4	Climate-related disclosure	<ol style="list-style-type: none"> Advocate through relevant government councils and the TCFD Consortium. [Already initiated] Monitor the progress of TCFD disclosure by our member banks. [Already initiated] Cooperate with international fora such as PCAF on Scope 3 emissions calculations. 	<ul style="list-style-type: none"> Year round: Submitted comments on 27 domestic and international public consultations (5), (11), (12) Submitted comments regarding the JFSA's "Supervisory Guidance on Climate-related Risk Management and Client Engagement (Draft)" (May). (12)
5	Climate-related financial risks	<ol style="list-style-type: none"> Participate in international discussions on climate-related financial risks. [On-going] (e.g., share views at international conferences, provide comments to public consultations) Provide comments on JFSA's draft supervisory guidance on climate transition support and risk management. [By the end of FY2021] 	<ul style="list-style-type: none"> Year round: Participated in discussions at the Expert Panel on Sustainable Finance hosted by JFSA, other government councils, and at the TCFD Consortium. (5), (8)

Key Priorities by 2030

- The first step for clients to respond to climate change is to identify potential climate-related risks and opportunities and, based on their materiality, develop a credible transition plan for decarbonisation, including specific actions during the “critical decade” up to 2030.
- The starting point for banks to support such a transition is to engage with clients to build a common understanding on their challenges and issues. The JBA will actively play a key role to facilitate such engagement by its member banks and address industry-wide challenges.

Key Priorities		Challenges	Action Plan
1	Engagement	<ul style="list-style-type: none"> ● Currently, <u>the advancement of client self-assessment on climate-related risks and opportunities varies by sector and company.</u> ● <u>The banking industry needs to build expertise on climate-related policies and sector-specific challenges</u> for engagement with clients and effective management of climate-related risks. 	<ul style="list-style-type: none"> ● Support our member banks' efforts, including the use of engagement-related support tools such as "First Steps Toward Decarbonisation". [New] ● Host seminars/study sessions inviting stakeholders such as relevant industrial organisations and ministries to better-understand sector-specific action plans and economic/technological challenges. [On-going]
2	Assessment	<ul style="list-style-type: none"> ● <u>A globally consistent assessment framework/criteria on whether a client's activities and transition plan are credibly aligned with the Paris Agreement and/or NDCs does not necessarily exist.</u> ● There, however, is <u>internationally growing pressure</u> on banks to demonstrate to stakeholders how banks reduce their financed emissions. 	<ul style="list-style-type: none"> ● Monitor the trends of available assessment guidance/criteria. (global, regional and domestic) [On-going] ● Share examples of leading cases/examples. [On-going] ● Participate and advocate in relevant government councils [On-going]
3	Sustainable finance	<ul style="list-style-type: none"> ● Further promotion of sustainable finance, including transition finance, is needed to realise GX. ● <u>For SMEs</u>, transforming their business entails numerous challenges. 	<ul style="list-style-type: none"> ● Participate in discussions to promote sustainable finance, including discussions to ensure the eligibility and reliability of transition finance. [On-going] ● Cooperate with SME-related organisations to advocate for support programs to complement the private sector's efforts. [On-going]
4	Climate-related disclosure	<ul style="list-style-type: none"> ● Progress is being made in the development of a framework for climate-related disclosures. <u>Continuous engagement with clients is indispensable to enhance banks' disclosure.</u> ● Banking-industry-wide discussion is required to approach <u>the challenge of Scope 3 emissions calculation method/disclosure.</u> 	<ul style="list-style-type: none"> ● Advocate through relevant government councils and the TCFD Consortium. [On-going] ● Monitor the progress of TCFD disclosure by our member banks. [On-going] ● Cooperate with international fora such as PCAF on Scope 3 emissions calculations. [On-going]
5	Climate-related financial risks	<ul style="list-style-type: none"> ● In some jurisdictions, there are increasing signs of trying to incorporate climate-related financial risks into stress testing and/or capital requirements. The JBA needs to actively participate in international discussions. ● There are issues to be addressed, such as lack of available data and analytical methods for scenario analysis to identify and manage climate-related financial risks for banks. 	<ul style="list-style-type: none"> ● Participate in domestic and international discussions on climate-related financial risks. (e.g., presentation at international conferences, provide comments during public consultations) [On-going] ● Participate in discussions to organise available data and methods for scenario analysis. [New]

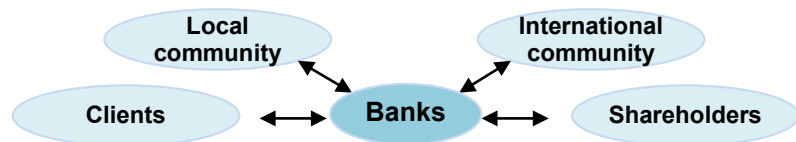
[Key priority #1] Engagement

- Currently, the advancement of client self-assessment on climate-related risks and opportunities varies by sector and company.
- The banking industry needs to build expertise on climate-related policies and sector-specific challenges for engagement with clients and effective management of climate-related risks.

Current status and challenges

Engagement by banks

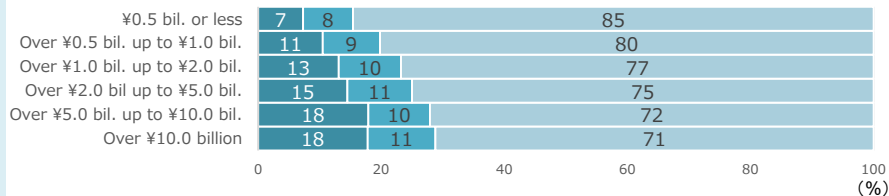
Need to build relationships and engage with various stakeholders



Challenges

The progress of efforts toward decarbonisation varies by sector and company. It is important for banks to deepen their understanding of clients' opportunities and risks/challenges, including efforts in the critical decade.

Status of considering actions to address the impact of carbon neutrality (by size of business in sales)

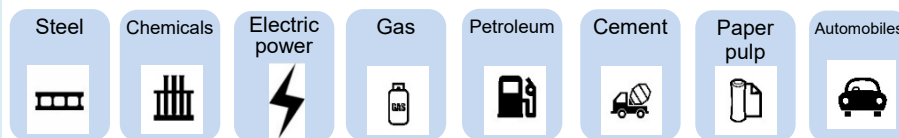


Source: Shoko Chukin Bank, "Survey on Carbon Neutrality awareness among SMEs" (July 2021)

Necessity to understand transition plans of the industrial sector

Sector/field-specific initiatives

Some hard-to-abate sectors are facing economic/technological challenges for decarbonisation.



In addition to the efforts of individual companies and industries, **it is necessary to understand the interconnections among related industries, as well as the transition plans of each industry and efforts in the supply chain.**

Initiatives by relevant ministries and agencies

- The JFSA established the "Working Group on Financial Institutions' Efforts towards the Decarbonisation of the Economy" to discuss measures to stimulate engagement between financial institutions and their client companies, including points to keep in mind when financial institutions take initiatives toward decarbonisation.
- The JFSA, the METI, and the MOE are currently studying the creation of guidance to support the realisation of corporate transition plans by providing key points for banks to follow-up after lending and investment.

Action Plan

Support our member banks' efforts, including the use of engagement-related support tools such as "First Steps Toward Decarbonisation".
[New]

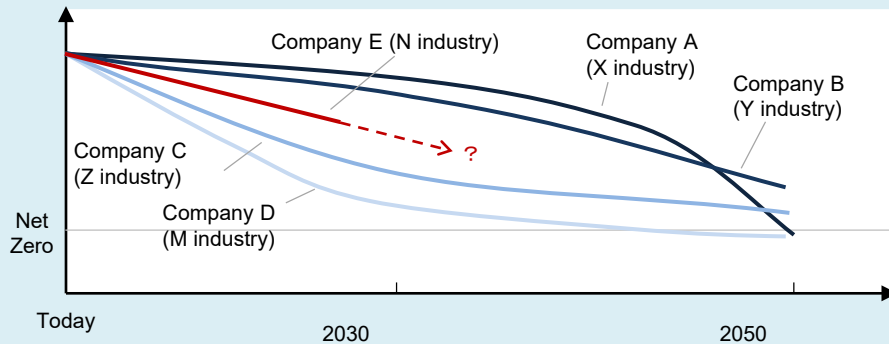
Host seminars/study sessions inviting stakeholders such as relevant industrial organisations and ministries to better-understand sector-specific action plans and economic/technological challenges. [On-going]

[Key priority #2] Assessment

- A globally consistent assessment framework/criteria on whether a client's activities and transition plan are credibly aligned with the Paris Agreement and/or NDCs does not necessarily exist.
- There, however, is internationally growing pressure on banks to demonstrate to stakeholders how banks reduce their financed emissions.

Challenges in assessing the client's transition plan

GHG emissions Transition plans of investees/borrowers vary by sector and company.



Challenges

- While transition plans vary by sector and company, **criteria for assessing feasibility and reliability are yet to be established in some sectors.**
- Due to uncertainties of the business environment and resource constraints, developing **a long-term transition plan may be difficult** (in particular, for SMEs).

Examples of available assessment guidance/criteria

There are various domestic and regional assessment guidance/criteria that can be used as a reference. However, the features of such guidance/criteria vary.



Taxonomy

- EU Taxonomy²²
- Green Bond Endorsed Project Catalogue²³
- IPSF²⁴ Common Ground Taxonomy²⁵
- ASEAN Taxonomy²⁶



Guideline

- Principles established by the International Capital Markets Association (ICMA)
- Guidelines established by the MOE
- Basic Guidelines on Climate Transition Finance established by the METI²⁷, etc.



Scenarios/Roadmap

- Paris Agreement Compatible Scenarios
- NGFS Scenarios¹⁷
- IEA Scenarios²⁸
- METI Roadmaps for Climate Transition Finance



ESG ratings providers, etc.

- The IOSCO published final recommendations on ESG Ratings and Data Products Providers²⁹.
- The JFSA published the Code of Conduct for ESG Evaluation and Data Providers³⁰.

It could be ideal to have a globally consistent assessment guidance/criteria from a perspective of ensuring objectivity, transparency and accountability. However, currently, various assessment guidance/criteria exist, and both the banking industry and the industrial sector are facing a challenge to choose the most suitable guidance/criteria.

Action Plan

Monitor the trends of available assessment guidance/criteria. (global, regional and domestic) [On-going]

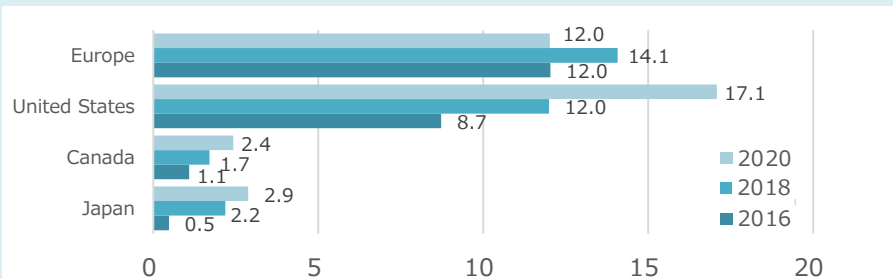
Share examples of leading cases/examples. [On-going]

Participate and advocate in relevant government councils. [On-going]

[Key priority #3] Sustainable finance

- Further promotion of sustainable finance, including transition finance, is needed to realise GX.
- For SMEs, transforming their business entails numerous challenges. The public sector needs to play a complementary role in supporting and financing the transition.

Global sustainable investing assets (2016-2020)



Source: GLOBAL SUSTAINABLE INVESTMENT REVIEW 2020 (Updated biannually) (in trillions USD)
The decrease in investment in Europe in 2020 is due to a change in the definitions.

Key challenges/global trends of transition finance

- **While there is progress in international positioning and the promotion of understanding**, with reports on transition finance released by the G20 Sustainable Finance Working Group and the OECD in October 2022 and GFANZ³¹ in November 2022^{32 33 34}, **efforts to ensure eligibility and reliability of transition finance are needed**.
- In order for financial institutions to further promote transition finance **amidst the growing demand for achieving net zero**, it is **necessary to establish a framework for transition finance to be positively evaluated**, while taking into **account international calculation methods and disclosure requirements on financed emissions**³⁵.

Key challenges in regional and SME finance

Expectation for regional financial institutions	SMEs' challenges
<ul style="list-style-type: none"> • Discuss and share the goals of the region with stakeholders, conduct business feasibility assessments from a medium/long-term timeframe, and provide finance and support for core business. • Enhance awareness among local companies to decarbonise through engagement and support their efforts. 	<p>Business and financial resources are restricted for a significant business transformation.</p>

Cooperation with the SME Agency, local governments and SME-related organisations is critical.

Global trends toward securing the eligibility and reliability of transition finance

GFANZ

In September 2022, a report³⁶ that help companies in the real economy develop credible transition plans was published.

NZBA³⁷

The "NZBA Transition Finance Guide"³⁸, which provides principles to use as a reference and proposes policy measures to mainstream transition finance, was published in October 2022.

UK TPT³⁹

A framework is currently being developed to require listed companies and financial institutions in the UK to develop and publish a transition plan. Public consultation⁴⁰ was held regarding the draft framework in November 2022. (To be finalised by the end of 2023)

Action Plan

Participate in discussions to promote sustainable finance, including discussions to ensure the eligibility and reliability of transition finance. [On-going]

Cooperate with SME-related organisations to advocate for support programs to complement the private sector's efforts. [On-going]

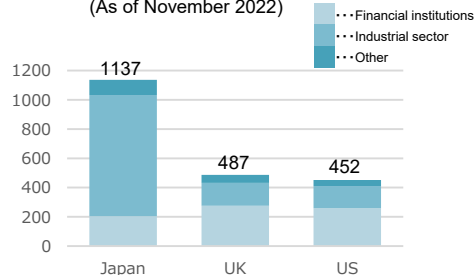
[Key priority #4] Climate-related disclosure

- Progress is being made in the development of a framework for climate-related disclosures. Continuous engagement with clients is indispensable to enhance banks' disclosure.
- Banking-industry-wide discussion is required to approach the challenge of Scope 3 emissions calculation method/disclosure.

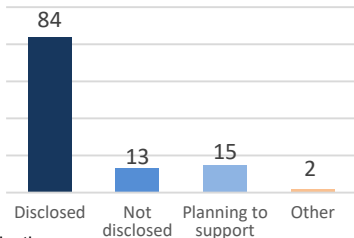
Domestic development of climate-related disclosures

Overview of TCFD supporters

Organisations supporting the TCFD by country
(As of November 2022)



TCFD supporters of JBA member banks
(As of the end of July 2022: 114 banks)



Japan currently has the largest number of companies/organisations (1137) supporting the TCFD recommendations.

Enhancement of sustainability information disclosure in annual securities reports

Based on the "Report of the Working Group on Corporate Disclosure of the Financial System Council"⁴¹ of June 2022, the JFSA **revised the "Cabinet Office Ordinance on the Disclosure of Corporate Affairs"**⁴² in January 2023. **A new section was created for sustainability information, including climate-related information, in annual securities reports** for fiscal years ending on or after 31 March 2023.

Challenges of climate-related disclosure

Companies

- **Challenges for calculating Scope 3 emissions** (a number of estimates and data are required to improve accuracy).
- Information disclosed by certain companies is still **limited***.
* For example, disclosure lacks descriptions of Scope 3 emissions, emissions by business line, emissions from consolidated companies and reduction targets.



As Scope 3 emissions (Financed Emissions) amount for the majority of banks' GHG emissions, enhancing companies' disclosures and enhancing banks' disclosures are interlinked.

Banks

- **The metrics and calculation methods of Scope 3 emissions are still in the development phase.** The limitation of clients' GHG emission disclosures also limits banks' ability for Scope 3 disclosure.
- **There are challenges related to scenario analysis** (e.g. high uncertainty in analyses and complicated scenario design).
- Improving the quality of TCFD disclosures is a challenge.

Status of the development of sustainability disclosure standards

Progress was made at the ISSB of the IFRS Foundation in **developing a baseline for international sustainability disclosure standards** in the first half of 2023. **In Japan, the SSBJ⁴³ under the Financial Accounting Standards Foundation (FASF) is currently discussing the development of a domestic sustainability disclosure standard based on the ISSB standards that include climate-related information.**

Action Plan

Advocate through relevant government councils and the TCFD Consortium. [On-going]

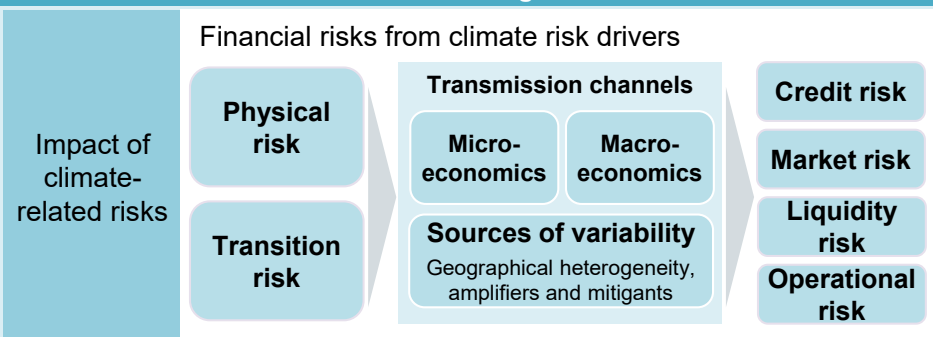
Monitor the progress of TCFD disclosure by our member banks, and host study sessions. [On-going]

Cooperate with international fora such as PCAF on Scope 3 emissions calculations. [On-going]

[Key priority #5] Climate-related financial risks

- In some jurisdictions, there are increasing signs of trying to incorporate climate-related financial risks into stress testing and/or capital requirements. The JBA needs to actively participate in international discussions.
- There are issues to be addressed, such as lack of available data and analytical methods for scenario analysis to identify and manage climate-related financial risks for banks.

Impact of climate-related risks on the financial system and risk analysis methodologies



➡ The impacts of climate change materialise over time with a **complex path and depend on future policy and social economic conditions. These potential impacts may be significant.**

Risk analysis methodologies

Given the nature of climate-related risks, “**scenario analysis**” is an effective tool. The NGFS provides several scenarios and recommends quantitative analysis that is used in stress testing as a scenario analysis approach by regulators. The FSB noted that the goal is for all financial risk decisions to appropriately take account of climate change.

Challenges and efforts for advancing scenario analysis

Scenario analysis challenges

Examples of scenario analysis challenges include:

- **A lack of data** on the impact of GHG emissions and reductions;
- **A globally accepted impact analysis method is yet to be established** due to its long-term nature and geographical differences; and
- **High uncertainty in analyses and complicated scenario design.**

Trends in Japan

Pilot exercise In August 2022, the JFSA and the Bank of Japan released a report⁴⁴ on a pilot scenario analysis exercise conducted with three major banks and three major non-life insurance groups. **Many issues regarding scenario analysis methods and data were identified.**

Efforts to utilize data At the “Working-level Meeting on Scenario Data for Climate-Related Risk and Opportunity Assessment”, **discussion about data usage is on-going between data providers (ministries and agencies, etc.) and data users (industries and financial institutions, etc.).**

Consideration of capital requirements in EU/UK

Europe (EBA) Require banks to identify, disclose and manage ESG risks as part of their risk management and to conduct regular climate stress testing. Consider whether environmental and/or social risk factors are to be incorporated into prudential treatments (by June 2023).

UK (PRA⁴⁵) Consider the possibility of incorporating forward-looking elements of climate-related financial risks into Pillar 1 (by Q4 2022).

Action Plan

Participate in domestic and international discussions on climate-related financial risks. (e.g., presentation at international conferences, provide comments during public consultations) [On-going]

Participate in discussions to organise available data and methods for scenario analysis. [New]

Notes

1. “The Sharm el-Sheikh Implementation Plan” published in November 2022
https://unfccc.int/sites/default/files/resource/cma4_auv_2_cover_decision.pdf
2. “The Glasgow Climate Pact” published in November 2021
https://unfccc.int/sites/default/files/resource/cma2021_10_add1_adv.pdf
3. “Basic Policy for the Realisation of GX” published in December 2022 (Only available in Japanese)
https://www.cas.go.jp/jp/seisaku/gx_jikkou_kaigi/index.html (GX Implementation Council website)
4. The Sixth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) published in August 2021
<https://www.ipcc.ch/report/ar6/wg1/>
5. According to the ICMA, a “Just Transition” is defined as a transition that “seeks to ensure that the substantial benefits of a green economy transition are shared widely, while also supporting those who stand to lose economically – be they countries, regions, industries, communities, workers or consumers”. The Just Transition concept links to the United Nations’ Sustainable Development Goals (SDGs). (ICMA Climate Transition Finance Handbook Related questions)
<https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/CTF-Handbook-QA-09122020.pdf>
6. IEA (International Energy Agency), “World Energy Outlook 2022” published in October 2022
<https://www.iea.org/reports/world-energy-outlook-2022> (IEA website)
7. “Clean Energy Strategy Interim Report” published in May 2022
https://www.meti.go.jp/english/policy/energy_environment/global_warming/pdf/clean_energy_strategy.pdf (METI website)
8. Basel Committee on Banking Supervision, “Climate-related risk drivers and their transmission channels” published in April 2021
<https://www.bis.org/bcbs/publ/d517.pdf>
9. Basel Committee on Banking Supervision, “Principles for the effective management and supervision of climate-related financial risks” published in June 2022
<https://www.bis.org/bcbs/publ/d532.pdf>
10. Based on the results of individual interviews and surveys conducted by the JBA.

Notes

11. "Scope 3" emissions refer to indirect greenhouse gas emissions from business activities in a company's supply chain, other than direct emissions (Scope 1: direct greenhouse gas emissions by the reporting company itself) and energy-derived indirect emissions (Scope 2: indirect emissions from the use of electricity, heat or steam supplied by others.) (MOE and METI, "Basic Guidelines on Accounting for Greenhouse Gas Emissions Throughout the Supply Chain" (2012))
https://www.env.go.jp/earth/ondanka/supply_chain/gvc/en/files/GuideLine.pdf
12. "Divestment" is an investment method whereby, from ESG perspectives, securities and other instruments related to a specific company or industry are excluded from the investment portfolio or are disposed of if they have already been purchased.
13. Inflation Reduction Act of 2022
<https://www.congress.gov/bill/117th-congress/house-bill/5376>
14. The European Green Deal Investment Plan
[https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/649371/EPRS_BRI\(2020\)649371_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2020/649371/EPRS_BRI(2020)649371_EN.pdf)
15. The GRI (Global Reporting Initiative) is an organisation founded in 1997, led by the U.S. non-profit organisation CERES and the UN Environment Programme (UNEP) to help companies and governments around the world understand and communicate critical sustainability issues such as climate change, human rights, governance and social welfare.
<https://www.globalreporting.org/> (GRI website)
16. The ISSB (International Sustainability Standards Board) is a board established in the IFRS Foundation that intends to develop a comprehensive global baseline of sustainability-related disclosure standards.
<https://www.ifrs.org/groups/international-sustainability-standards-board/> (IFRS Foundation website)
17. "NGFS Climate Scenarios for central banks and supervisors" published in September 2022
https://www.ngfs.net/sites/default/files/medias/documents/ngfs_climate_scenarios_for_central_banks_and_supervisors_.pdf.pdf
18. Financial Stability Board (FSB), "FSB Roadmap for Addressing Financial Risks from Climate Change: 2022 progress report" published in July 2022
<https://www.fsb.org/2022/07/fsb-roadmap-for-addressing-financial-risks-from-climate-change-2022-progress-report/>
19. Basel Committee on Banking Supervision, "Frequently asked questions on climate-related financial risks" published in December 2022
<https://www.bis.org/bcbs/publ/d543.pdf>
20. European Banking Authority, "The role of environmental risks in the prudential framework" published in May 2022
<https://www.eba.europa.eu/eba-launches-discussion-role-environmental-risks-prudential-framework> (EBA website)

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21. IBFed, “Banking on climate neutrality The global banking industry’s role in transitioning to a low-carbon economy” published in November 2022
<https://www.deloitte.com/content/dam/assets-shared/legacy/docs/gx-Deloitte-IBFed-Climate-Release-copy.pdf>
22. EU Taxonomy (Sustainable finance taxonomy - Regulation (EU) 2020/852)
<https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020R0852&from=EN>
23. China Green Bond Endorsed Project Catalogue
<http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4342400/2021091617180089879.pdf>
24. The IPSF (International Platform on Sustainable Finance) is a multilateral forum that aims to enable exchange of practices and increase international cooperation on matters related to sustainable finance. As of January 2023, policymakers from 19 jurisdictions have joined the IPSF, including the EU, Japan, China, UK, Canada, Switzerland, Singapore, New Zealand, India, Indonesia, Hong Kong and Malaysia.
https://finance.ec.europa.eu/sustainable-finance/international-platform-sustainable-finance_en (IPSF website)
25. The Common Ground Taxonomy is a project led by the IPSF for ensuring the comparability and interoperability of existing taxonomies across jurisdictions. It intends to provide more clarity and transparency about the commonalities and differences between approaches and potentially contribute to the analysis to lower the trans-boundary cost of sustainable investments and scale up the mobilisation of sustainable capital internationally.
https://finance.ec.europa.eu/sustainable-finance/international-platform-sustainable-finance_en (IPSF website)
26. ASEAN Taxonomy (ASEAN Taxonomy for Sustainable Finance)
<https://asean.org/asean-sectoral-bodies-release-asean-taxonomy-for-sustainable-finance-version-1/> (ASEAN website)
27. JFSA, METI, MOE, “Basic Guidelines on Climate Transition Finance” published in May 2021
https://www.meti.go.jp/english/press/2021/0507_001.html (METI website)
28. IEA Scenarios, “Global Energy and Climate Model”
<https://www.iea.org/reports/global-energy-and-climate-model> (IEA website)
29. IOSCO, “Environmental, Social and Governance (ESG) Ratings and Data Products Providers Final Report” published in November 2021
<https://www.iosco.org/library/pubdocs/pdf/IOSCOPD690.pdf>
30. JFSA, “The Code of Conduct for ESG Evaluation and Data Providers” published in December 2022
<https://www.fsa.go.jp/en/news/2022/20221215/20221215.html> (JFSA website)

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31. GFANZ (Glasgow Financial Alliance for Net Zero) is a private initiative across the financial industry that was established in April 2021 to accelerate the transition to net zero by 2050. It is composed of more than 550 financial institutions in over 50 countries (as of November 2022).
<https://www.gfanzero.com/> (GFANZ website)
32. G20 Sustainable Finance Working Group, "2022 G20 Sustainable Finance Report" published in October 2022
<https://g20sfwg.org/wp-content/uploads/2022/10/2022-G20-Sustainable-Finance-Report-2.pdf>
33. OECD (Organisation for Economic Co-operation and Development), "OECD Guidance on Transition Finance" published in October 2022
<https://www.oecd.org/greengrowth/oecd-guidance-on-transition-finance-7c68a1ee-en.htm> (OECD website)
34. GFANZ, "Financial Institution Net-zero Transition Plans Fundamentals, Recommendations, and Guidance" published in November 2022
<https://assets.bbhub.io/company/sites/63/2022/09/Recommendations-and-Guidance-on-Financial-Institution-Net-zero-Transition-Plans-November-2022.pdf>
35. "Financed Emissions" refers to the GHG emissions of financial institutions that fall into Scope 3, category 15: "Investments". Financed emissions account for the majority of banks' GHG emissions.
36. GFANZ, "Expectations for Real-economy Transition Plans" published in September 2022
<https://assets.bbhub.io/company/sites/63/2022/09/Expectations-for-Real-economy-Transition-Plans-September-2022.pdf>
37. NZBA (Net-Zero Banking Alliance) is a private banking industry initiative that was established in April 2021 to achieve net zero GHG emissions by 2050 through lending and investment portfolios. It is composed of 126 banks in 41 countries (as of December 2022).
<https://www.unepfi.org/net-zero-banking/> (NZBA website)
38. NZBA, "Net-Zero Banking Alliance Transition Finance Guide" published in October 2022
<https://www.unepfi.org/industries/banking/net-zero-banking-alliance-transition-finance-guide/> (UNEP FI website)
39. The UK TPT (Transition Plan Taskforce) was established to develop a framework to require listed companies and financial institutions in the UK to develop and publish a transition plan.
<https://transitiontaskforce.net/> (UK TPT website)
40. UK TPT, "The Transition Plan Taskforce Disclosure Framework" published in November 2022
<https://transitiontaskforce.net/wp-content/uploads/2022/11/TPT-Disclosure-Framework.pdf>

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41. Financial System Council, "Report of the Working Group on Corporate Disclosure" published in June 2022
https://www.fsa.go.jp/singi/singi_kinyu/tosin/20220613/03.pdf
42. JFSA, "Public Comments Regarding the Revised Cabinet Office Ordinance on the Disclosure of Corporate Affairs" published in January 2023 (Only available in Japanese)
<https://www.fsa.go.jp/news/r4/sonota/20230131/20230131.html>
43. The SSBJ (Sustainability Standards Board of Japan) was established in July 2022 by the Financial Accounting Standards Foundation (FASF) for the purpose of providing input into the development of an internationally harmonised sustainability disclosure standard by the ISSB and to examine disclosure standards in Japan.
<https://www.asb.or.jp/jp/> (FASF website)
44. JFSA, BOJ, "Pilot Scenario Analysis Exercise on Climate-Related Risks Based on Common Scenarios" published in August 2022
<https://www.fsa.go.jp/en/news/2022/20220826.html>
45. "PRA" refers to Prudential Regulation Authority.