

Basic Guidelines on Climate Transition Finance

May 2021

Financial Services Agency;
Ministry of Economy, Trade and Industry;
and Ministry of the Environment, Japan



Chapter

Chapter 1 Introduction 1

1. Purpose of the Basic Guidelines..... 1

Chapter 2 Overview of Transition Finance4

1. Definition of Transition Finance 4

2. Overview of Transition Finance 4

Chapter 3 Expectations in Transition Finance and Specific Approaches7

1. Overview of expected disclosure elements in transition finance 7

2. Specific Approaches to respective disclosure elements 8

(1) Element 1: Fundraiser's Climate Transition Strategy and Governance 8

(2) Element 2: Business Model Environmental Materiality 10

(3) Element 3: Climate Transition Strategy to be Science-based Including Targets and Pathways 10

(4) Element 4: Implementation Transparency 12

APPENDIX1. COMMITTEE 14

APPENDIX2. DIALOGUE PARTICIPANTS 16

1. Purpose of the Basic Guidelines

The Paris Agreement, which was adopted in 2015, set out a long-term universal goal to “holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursue efforts to limit the temperature increase to 1.5°C above pre-industrial levels”.

In addition, the Special Report on Global Warming of 1.5°C (SR15) published by the IPCC¹ (Intergovernmental Panel on Climate Change) points out that for global warming to be limited to 1.5°C, global human-caused emissions of carbon dioxide would need to reach “net zero” around 2050.

In Japan, Prime Minister Suga declared in his first policy speech on October 26, 2020 that he would aim to achieve carbon neutral for a decarbonized society by 2050. Subsequently on December 25, the “Green Growth Strategy Through Achieving Carbon Neutrality” was formulated. The strategy represents an industrial policy that allows for a shift from the conventional view where the mitigation of global warming is costly and weighs down economic growth, to one based on aggressive action to generate innovations in industrial structures and social economy, thereby creating a positive cycle of economic growth and environmental protection. The government declared that it will, through every possible measure and means, strongly support private companies to make forward-looking effort to aggressively invest and innovate. These Basic Guidelines (hereinafter, referred to as “Guidelines”) are part of such measures.

It is said that cumulative global investment of approximately 7,370 trillion yen by 2040 will be needed to achieve Paris Agreement (based on IEA World Energy Outlook 2020).

In the financial sector, the number of financial institutions that give consideration to actions to combat climate change have increased, driving growth in sustainable investments, while corporations are also strongly encouraged to address climate change.

Under these circumstances, the EU, which advocates sustainable finance measures, will be put in place “taxonomy” that classifies “green” economic activities as the first step in its action plan to mobilize financing for initiatives that promote sustainable development, particularly measures against climate change.

In addition to further promoting “green” investment in areas such as renewable energy, it is also important, from the viewpoint of steadily reducing greenhouse gas (GHG) emissions around the world, to promote a transition to decarbonization, including low carbonization initiatives in hard-to-abate sectors (the industrial and energy conversion sectors that currently face challenges in decarbonization) to achieve the Paris Agreement’s goal.

For this reason, there is a need to actively provide financing for energy efficiency and other initiatives toward low carbonization in the hard-to-abate sectors and for initiatives that contribute to the transition toward decarbonization, such as long-term research and development.

On the basis of the above recognition, Singapore, Australia, Canada and other countries are proceeding with initiatives that take into account the characteristics specific to their respective region. Giving due consideration to the developments of these countries, with the aim to share a globally uniform approach, the International Capital Markets Association (ICMA) published the “Climate Transition Finance Handbook” (hereinafter referred to as “ICMA Handbook”) in December 2020.

In Japan, “Concept Paper on Climate Transition Finance Principles²” and “Climate Innovation Finance Strategy 2020³” were formulated as part of the efforts to promote financing for initiatives that contribute to the transition to a decarbonized society.

1 IPCC stands for Intergovernmental Panel on Climate Change. The IPCC provides comprehensive assessments on climate change, its underlying physical-science-based factors, implications and risks as well as adaptation and mitigation options against climate change from scientific, technical and social economic viewpoints.

2 The Study Group on Environmental Innovation Finance in Japan published the “[Concept Paper on Climate Transition Finance Principles](#)” in March 2020.

3 The Study Group on Environmental Innovation Finance in Japan published the “[Climate Innovation Finance Strategy 2020](#)” as an interim report in September 2020.

In light of the above, the purpose of these Guidelines is to strengthen the position of climate transition finance (hereinafter referred to as “transition finance”) as a means of financing transitions, especially in hard-to-abate sectors, and introduce more funds in order to contribute to achieving the 2050 carbon-neutral goals and the Paris Agreement, by popularizing transition finance, which is in its startup phase, and ensuring the credibility of financing in labeling as transition finance.

To this end, these Guidelines provide examples of responses and interpretations so that they can serve as a reference for the fundraiser⁴, the financier⁵ and other market participants when they consider concrete actions to transition finance, while taking into account the alignment with the ICMA Handbook. At the request of the Taskforce on Preparation of Environment for Transition Finance, ICMA has provided input into these Guidelines while also confirming that it welcomes the proposed alignment with its Climate Transition Finance Handbook.

These Guidelines provide the standpoint in Chapter 1, Section 2. Chapter 2 provides an overview of transition finance, focusing on its position in relation to the existing principles and guidelines. Finally, Chapter 3 describes the expectations on the fundraiser in transition finance and how to cope with.

In order to create a sound market for transition finance, it is important to promote active use of transition finance by the fundraiser that refers to this document. What is also extremely vital is the role of the financier that assesses the corporate initiatives for decarbonization and low carbonization, extends financing, and making investment decisions. Given the need to clarify what transition finance is by building up sample cases, especially when the market for transition finance is in its infancy, the positive attitude of the fundraiser to take on challenges, the understanding by the financier, and creativity on both sides will be required.

Through the development and disclosure of the transition strategy, the fundraiser can improve sustainability management and build relationships with the financier who highly recognize the initiatives taken by the fundraiser, with the aim to balance the promotion of their own low carbonation and decarbonization and the increase of corporate value while strengthening the funding base.

The financier can contribute to the achievement of the Paris Agreement and of a sustainable society and growth of the world including Japan by engagement and extending financing to the fundraiser, who wish to advance business reforms aligning with the Paris Agreement and who are recognized as credible in their practices, while gaining profit from investments and financing.

4 A fundraiser refers to both a bond issuer and a loan receiver.

5 The financier refers to financial institutions and investors including banks and asset managers, insurance companies and pension funds

2. Standpoint of the Basic Guidelines

The transition finance market should mature through a dialogue based on sufficient information between the fundraiser and the financier. The fundraiser is an entity considering climate change measures and making efforts towards achieving a decarbonized society. The financier is an entity that is willing to provide financial support, noting the credibility of the fundraiser's commitments and practices. It is ultimately up to the market to evaluate how appropriate the fundraiser's responses to transition finance are and whether they are eligible for investment and financing.

Meanwhile, organizing the expectations in transition finance will form the basis of dialogue between such the fundraiser and the financier. In addition, it will be useful when the fundraiser and the financier explain to their respective stakeholders that the fundraising and financing pertain to climate change-related transition.

In shaping the new concept of transition finance in Japan, it is reasonable that the concept aligns with the international capital market consensus for transition. At the same time, it is also important to understand that a pathway to decarbonization will vary from country to country.

Based on the above views, these Guidelines have been formulated with due consideration to alignment with the ICMA Handbook.

The ICMA Handbook recommends that the fundraiser provides four elements (Element 1: Issuer's climate transition strategy and governance; Element 2: Business model environmental materiality; Element 3: Climate transition strategy to be 'science-based' including targets and pathways; and Element 4: implementation transparency) and the Guidelines recommend those elements are disclosed. We believe that financing in accordance with the provisions of these Guidelines can be recognized as transition finance domestically and internationally.

An entity that seeks transition finance is: (1) an entity⁶ that formulates strategies and plans to meet the targets set for achieving decarbonization and procures funds to put initiatives into practice in line with those strategies and plans; and (2) an entity that procures funds for activities (including investments and loans) that enable transition toward decarbonization by another party.

These Guidelines shall be applied to domestic transition finance in light of the above-mentioned concept, but are also applicable in other countries and regions in need of transition finance.

⁶ Includes any special purpose company (SPC) established to finance specific projects.

Chapter 2 | Overview of Transition Finance

1. Definition of Transition Finance

Transition finance⁷ refers to a financing means to promote long-term, strategic GHG emissions reduction initiatives that are taken by a company considering to tackle climate change for the achievement of a decarbonized society.

In particular, Japan, with the aim to achieve 2050 carbon neutral, defines transition finance as a finance for supporting the fundraiser who have set their target consistent with the Paris Agreement and satisfied the elements set forth in these Guidelines.

Note that a roadmap for decarbonization initiatives will be developed for each industrial sector, allowing companies to refer to in the development of their own strategies and climate change measures when it is set.

2. Overview of Transition Finance

ICMA Handbook also defines investment as transition finance in debt markets for climate transition-related purposes, whether this be in the format of:

- Use of Proceeds instruments: Bonds defined as those aligned to the Green and Social Bond Principles or the Sustainability Bond Guidelines; or

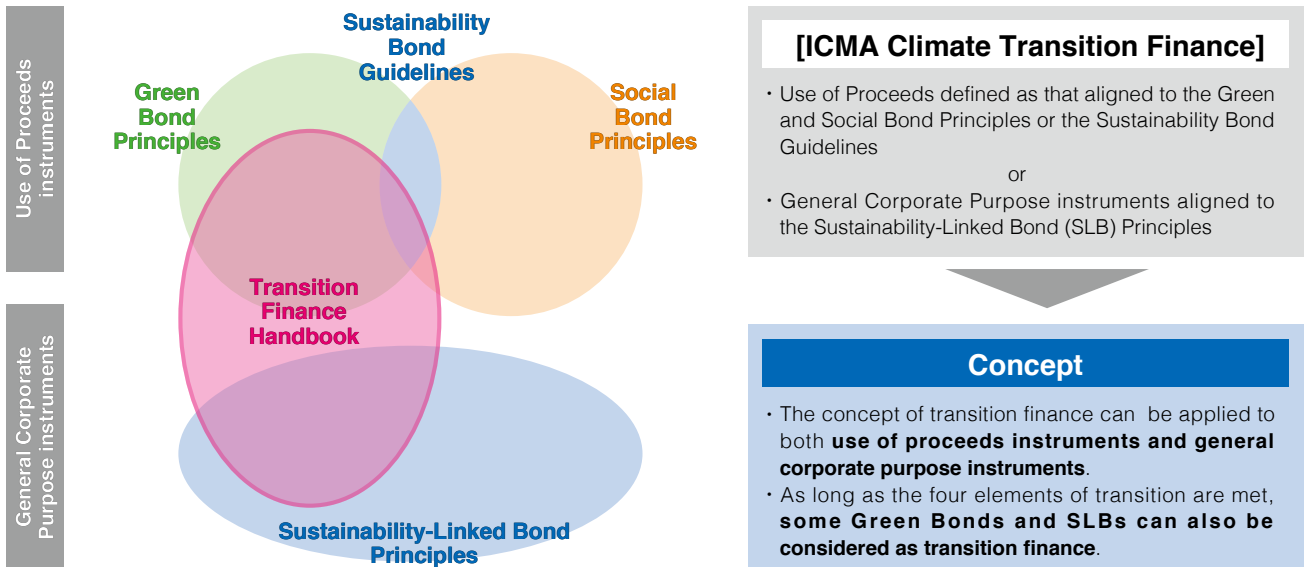
- General Corporate Purpose instruments: Bonds aligned to the Sustainability-Linked Bond Principles.

According to the provisions of the ICMA Handbook, transition finance, as shown in Figure 1, overlaps the existing Green and Social Bond Principles or the Sustainability Bond Guidelines and the Sustainability-Linked Bond Principles regardless of whether the Use of Proceeds is specified or not.

In other words, transition finance is determined not only by the Use of Proceeds of the funds raised, but also by the credibility of the strategies and practices of the fundraiser. Therefore, by meeting the four elements of disclosure expected of the fundraiser, some of the bonds, such as green bonds and sustainability-linked bonds, can also be considered as a type of transition finance-compliant.

⁷ ICMA's "Climate Transition Finance Handbook" provides that "the concept of climate transition focuses principally on the credibility of an issuer's climate change-related commitments and practices".

Figure 1: Definition of Transition Finance – ICMA “Climate Transition Finance Handbook”

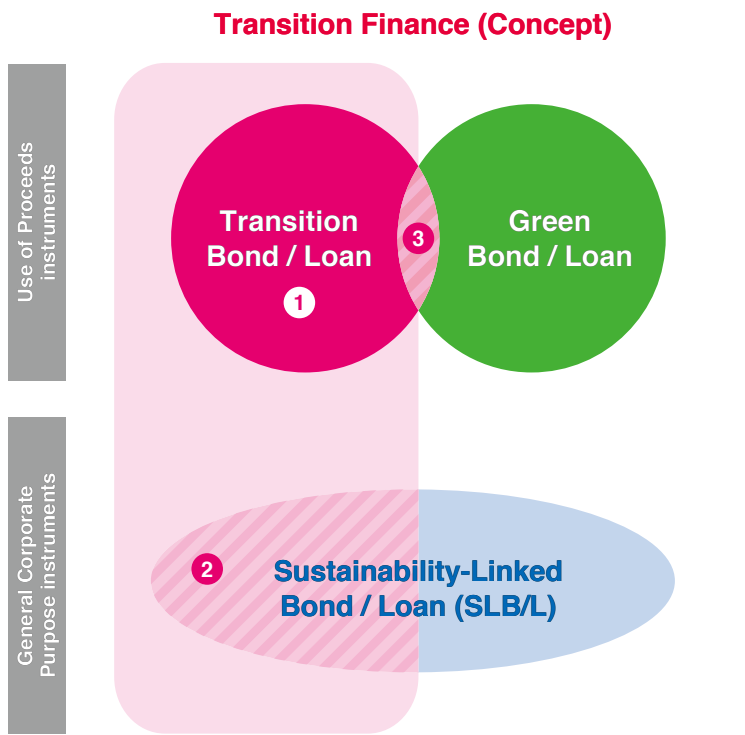


(Source) ICMA Climate Transition Finance Handbook

Transition finance provided in these Guidelines pertains to financial instruments that correspond to (1) through (3) in Figure 2. These financial instruments are expected to meet the four elements of disclosure recommended in the ICMA Handbook and these Guidelines, as well as the other elements, such as the issuance process, defined in existing principles and guidelines. Specifically, the Use of Proceeds instruments ((1), (3) in Figure 2) are expected to fulfill the four core elements set forth in the [Green Bond Principles](#) developed by ICMA originally published in 2014 and updated in 2018, or the [Green Bond Guidelines](#), the original edition of which was developed by the Ministry of the Environment in 2017 and updated in 2020 in consistency with those principles (Use of Proceeds, Process for Project Evaluation and Selection, Management of Proceeds, and Reporting). Note that for the Use of Proceeds instruments, even if the target project does not fall under the specific cases of Use of Proceeds, namely Green Projects, specified in the Green Bond Guidelines, such project that falls under the following concept (1) in the following Figure 2 is eligible for transition finance. In addition, it should be noted that even an instrument issued as a green bond may be requested by the market to fulfill the elements of transition finance in cases when investing in entities that are exposed to sectors or technologies where market participants’ opinions are divided. Meanwhile, the Sustainability-Linked Bonds for which the Use of Proceeds is not specified ((2) in Figure 2) are expected to fulfill the five core components (Selection of Key Performance Indicators (KPIs), Calibration of Sustainability Performance Targets (SPTs), Bond Characteristics, Reporting, and Verification) set forth in the Sustainability-Linked Bond Principles. Note that regardless of (1) through (3) in Figure 2, financial instruments that fulfill the four elements of disclosure for transition finance may be recognized as transition finance.⁸

⁸ Those that meet the existing Social Bond Principles (including guidelines that are to be developed in Japan) and the Sustainability Bond Guidelines and meet the four elements of disclosure for transition finance are also eligible. There are other financial instruments that can be used as transition finance, but they are not included in these Guidelines because there are no existing principles to refer to.

Figure 2: Definition of Transition Finance – Basic Guidelines



What is labeled “Transition”?

- (1) Use of Proceeds instrument (bond or loan) that meets the four elements of transition (when the Use of Proceeds does not fall under Green Projects (*) but the process follows the existing principles and guidelines)
- (2) General Corporate Purpose instrument (bond or loan) that meets the four elements of transition, sets targets in line with the transition strategy, and changes its financial and/or structural characteristics depending on the achievement of predefined targets
- (3) Instrument that meets the four elements of transition and follows the existing Green Bond Principles and the Green Bond Guidelines (when the Use of Proceeds falls under Green Projects*)

* Green Projects: Projects listed as Green Projects in the existing Green Bond Guidelines or those already issued.

Regardless of (1) through (3), financial instruments that fulfill the four elements of transition may be recognized as transition finance (however, they are not covered here given that there are no principles, etc. to conform to).

(Source) ICMA Climate Transition Finance Handbook

While enabling a wider use of the funds raised, transition finance is a type of financing for entities that will ensure more ambitious initiatives for the future. This is because the fundraiser is clearly required to develop strategies to achieve long-term goals that align with the Paris Agreement. Therefore, transition finance, similar to the issuance of green bonds and such like, is an extremely important means for achieving a decarbonized society.

While these Guidelines are written based on cases for bonds, the concept involved can also be applied to loans. When used for loans, such loans are recognized as transition finance if they fulfill the elements provided in these Guidelines as well as the components provided in the Green Loan Principles and the Sustainability-Linked Loan Principles issued by the Loan Market Association (LMA) and the Green Loan and Sustainability-Linked Loan Guidelines developed by the Ministry of the Environment in consistency with those principles and guidelines.

1. Overview of expected disclosure elements in transition finance

The ICMA Handbook identifies the following four key elements in disclosure which are recommended to enhance credibility of the issuance of bonds to finance climate transition:

Element 1: Issuer's climate transition strategy and governance

Element 2: Business model environmental materiality

Element 3: Climate transition strategy to be science-based including targets and pathways

Element 4: Implementation Transparency

This chapter provides the issues of disclosure and the approaches for each of the four elements. Such expectations and approaches are described using three expressions: "should," "recommended," and "be considered/possible." These expressions are used in the following context.

- Items described with the word "should" are basic elements that financial instruments labeled as transition finance are expected to have.
- Items described with the word "recommended" are elements that financial instruments labeled as transition finance are optimally recommended to have under these Guidelines although instruments which do not have these items can also be labeled as "transition".
- Items described with the word "be considered" or "possible" are elements that these Guidelines provides as examples and interpretations although it is not considered problematic even if financial instruments labeled as transition finance do not have them.

These Guidelines are legally non-binding, and no legal penalties will be imposed even if a certain action does not comply with the expectations and approaches (including those described with the word "should") provided in these Guidelines. (However, it is necessary to note that if a certain act infringes upon any other relevant laws or regulations, legal penalties may be imposed based on those laws or regulations.)

As noted in Chapter 2, transition finance shall be initiated in alignment with the existing principles and guidelines. Any restrictions already set forth for specific instruments, including matters concerning the issuance process that are not expressly described in these Guidelines, shall be applied in line with respective principles and guidelines.

2. Specific Approaches to respective disclosure elements

(1) Element 1: Fundraiser's Climate Transition Strategy and Governance

○ Main issue

- a) Financing through transition finance should aim to implement or incentivize the achievement of transition strategies⁹. Such strategies should incorporate a long-term target to align with the goals of the Paris Agreement, relevant interim targets on the trajectory towards the long-term goal, disclosure on the levers towards decarbonization, and fundraiser's strategic planning.
- b) A transition strategy should serve to explicitly communicate the implementation of an issuer's strategy to transform the business model in a way which effectively addresses climate-related risks and contributes to achieving the goals of the Paris Agreement¹⁰. Transformation of a business model is not limited to initiatives as an extension of existing businesses but can also be transformation based on various other perspectives. It includes fuel conversion that achieves significant carbon and GHG reduction benefits, introduction of innovative technologies, improvement of / changes in manufacturing processes and products, and development and provision of products and services in new fields.
- c) The implementation of a transition strategy assumes cases where it affects society and environment other than climate change, such as employment or stable provision of products and services, through transformation of a business model. In such cases, it is recommended that the fundraiser also takes into consideration the impact of business innovations to society and environment other than climate change.
- d) Climate change-related scenarios¹¹ should be referenced in developing transition strategies. The pathway to transition should be planned for respective sector and regions of individual fundraiser, who may generally be placed in a different starting point and pathway to transition.
- e) Transition strategies and plans must be highly credible in terms of their effectiveness. Therefore, it is recommended that a transition strategy and plan are linked to management strategy and business plan, including medium-term management plans.
- f) However, because such strategies and plans run for a long period of time, it is possible that the content may be modified or adjusted in the event of a major change in the assumed external environment and so on.
- g) In the initial phase of developing a transition strategy by the fundraiser, it is considered as an option for the fundraiser to indicate a plan for future implementation of items described with the words "recommended" and "be considered/possible" in these Guidelines.
- h) In order to secure the effectiveness of the transition strategy, the fundraiser should establish an organizational structure¹² for the board of directors and/or other such committee to oversee the activities addressing climate change and for management to play a role in assessing and managing such climate-related activities.

9 Transition finance is available for not only entities with strategies and plans for reducing emissions associated with their corporate economic activities, but also entities that plan to take initiatives that enable others to implement transition strategies through their own products and services. In such cases of financial institutions, a financier should articulate how the underlying projects or activities themselves fit into the fundraiser's strategy while, similarly, a subsidiary or an SPC to make use of its group's or its sponsors' strategy. However, doing so they should explain how their strategy will contribute to the strategy as a whole. In addition, it can be considered that parent company or the group who established the strategy would explain the transition elements as the main fundraiser.

10 The Paris Agreement sets out a goal to Holding the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels.

11 Climate-related scenarios are listed in the "[Task Force on Climate-related Financial Disclosures \(TCFD\) Technical Supplement](#)" and the document issued by the Ministry of the Environment: "[Practical Guide for Scenario Analysis in line with TCFD Recommendations](#)". In addition, [Principles for Responsible Investment \(PRI\) disclose a set of climate scenario tools](#)

12 Assumes matters provided for under "governance" in the [TCFD Recommendations](#).

-
- i) While a transition strategy shall be basically developed by a company in need of finance, it is possible for entities to utilize the strategy of companies that are wholly or partially responsible for the initiatives to establish or explain their own strategy, given that the finance supports GHG emissions reduction initiatives of not just a single company but its supply chain.

○ Disclosures

- j) Transition strategies should be disclosed in advance in a company's integrated report, sustainability report, statutory documents and other materials for investors (including such disclosures on the website). This also applies to the other three elements.
- k) It is possible to disclose transition strategies and elements concerning the governance guaranteeing that the execution of transition strategies is in alignment with the reporting frameworks such as the Recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD; Final Report)¹³.
- l) If the implementation of a transition strategy assumes impacts on society and environment other than climate change, it is recommended that the fundraiser explain the view underlying its approach¹⁴, etc. to address such impacts and disclose how the strategy on the whole contributes to achieving the Sustainable Development Goals (SDGs) so that the effects can be appropriately evaluated by the financier.
- m) Considering the length of application and other factors, there may be instances when a transition strategy and plan will need to be modified due to major changes in the external environment and relevant conditions that were assumed at a planning phase. In this case, the contents of the modification should be disclosed together with the underlying reason in a timely manner.
- n) In terms of governance, it is recommended that disclosures include an organizational structure for overseeing the implementation of a transition strategy and for assessing and managing related initiatives. It is also recommended that disclosures include the specific roles of the constituent organizations and the management and the process by which the content of deliberations is reflected in management.

○ Independent review, assurance, and verification

- o) In cases where the fundraiser determines the need for an objective assessment regarding the transition strategy, it is recommended that a review, assurance and verification by an external organization for its transition strategy.
- p) It is recognized useful to obtain a review particularly concerning the following in connection with the transition strategy:
- Alignment of short-term, mid-term and long-term targets (for targets, refer to Element 3) with the overall scenario
 - Credibility of the fundraiser's strategy to reach the targets
 - Appropriateness of the management process and governance for the transition strategy

¹³ As for the approach to disclosure aligned with TCFD Recommendations, refer to "[Guidance on Climate-related Financial Disclosures \(TCFD Guidance\) 2.0](#)", "[Guidance for Utilizing Climate-related Information to Promote Green Investment \(Green Investment Guidance\)](#)" (both published by the TCFD Consortium), and the document published by the Ministry of the Environment: "[Practical Guide for Scenario Analysis in line with TCFD Recommendations](#)".

¹⁴ An example of the approach may be to identify, eliminate, reduce, and manage potential negative effects.

(2) Element 2: Business Model Environmental Materiality

○ Main issue

- a) Initiatives for achieving the transition strategy should be such that contribute to transforming core business activities that are environmentally material parts today and in the future.¹⁵
- b) When identifying business activities that are environmentally material parts, it is recommended that the fundraiser consider multiple climate change-related scenarios that may possibly impact its judgment on the identification¹⁶.
- c) In terms of considering materiality, it is possible to apply existing guidance provided by an organization that creates standard criteria concerning sustainability reporting¹⁷.

○ Disclosures

- d) The fundraiser should indicate that climate change is an environmentally material part of business activities¹⁸.
- e) It is recommended that disclosures include the contents of climate change-related scenarios used in identifying business activities that are environmentally material parts along with the underlying reasons (e.g., regional and industrial characteristics) for selecting such scenarios.

(3) Element 3: Climate Transition Strategy to be Science-based Including Targets and Pathways

○ Main issue

- a) The fundraiser should reference science-based targets in developing its transition strategies.
- b) This should include mid-term targets (short- to mid-term targets) in addition to long-term targets for 2050 and be quantitatively measurable based on a measurement methodology which is consistent over a long period of time.
- c) In addition, it is recommended that GHG reduction targets, which could be formulated either in intensity and absolute terms, should consider environmental materiality and cover Scopes 1 through 3 of GHG Protocol, the international standard on supply-chain emissions. It is recommended that targets covering Scope 3 be set using a practical calculation method when it could be subject to significant reduction in the fundraiser's business model¹⁹. It is also possible to disclose the avoided emissions as necessary.
- d) Science-based targets are GHG reduction targets required for achieving the goals of the Paris Agreement and should be set while taking into account differences in regional characteristics and industries. In so doing, it is possible to refer to the following trajectories.

15 They include activities that are environmentally material parts are considered to be business activities of the fundraiser that identifies climate change as part of its materiality.

16 Scenario analysis using multiple climate-related scenarios is similar to that required by the TCFD Recommendations, and it is considered useful to refer to relevant guidelines and such like for implementation methods. An example is the document issued by the Ministry of the Environment: "[Practical Guide for Scenario Analysis in line with TCFD Recommendations](#)".

17 "[The SASB Materiality Map](#)" issued by the Sustainability Accounting Standards Board serves as a guidance concerning materiality.

18 As for the approach to identifying environmentally material business activities, it is possible to use the materiality map and such like and outline the level of materiality of climate change for one's entity.

19 Since an appropriate method for calculating Scope 3 emissions for specific industrial sectors is under development, it is possible to estimate Scope 3 emissions on a provisional "best effort" basis. When disclosing, it is recommended that boundaries, calculation methods and other relevant factors be also reported. "Basic Guidelines on Accounting for Greenhouse Gas Emissions Throughout the Supply Chain"(METI, MoE; 2017 [Japanese only](#). Related information in [English](#)) can be used for calculation references.

-
- Scenarios widely recognized in the international community
(Examples include the Sustainable Development Scenario (SDS) outlined by the International Energy Agency (IEA)²⁰)
 - Objectives verified under the Science Based Targets Initiative (SBTi) and such like
 - Nationally Determined Contributions (NDC) of countries aligned with the goals of the Paris Agreement, roadmaps by industry sector²¹, industries set out plans that are science-based achieving the Paris Agreement²² and so on.
- e) Short- to mid-term targets (with a term of three to fifteen years) should be set by referencing the aforesaid trajectories or on the pathway toward the long-term targets planned as benchmarks²³.
- f) In doing so, since short- to mid-term targets will likely be set in consideration of various factors (including the starting point and track records of the issuer, timing of capital investments, economic rationality, cost-benefit analysis, and availability of technology necessary to achieve the targets), it is possible that the pathway may not necessarily be linear with the same slope at all times but may be nonlinear.

○ Disclosures

- g) The fundraiser should disclose the short- to mid-term and long-term targets they have set, including the base years etc.
- h) In order to show that long-term targets are science-based, disclosures should explain the methodology or trajectory used to define target, including the underlying reasons (e.g., characteristics specific to a region or industry). In particular, when reference is made to plans and industry roadmaps established by an industry, etc., the explanation should include that they are grounded in scientific basis.
- i) It is possible that disclosures explain the pathway toward a long-term target and the alignment between the short- to mid-term targets on the pathway and the transition strategy, based on the investment plan (refer to Element 4) and other plans.

○ Independent review, assurance, and verification

- j) Concerning targets and trajectories, obtaining expert reviews on the following is considered to be particularly useful:
- Whether the long-term target is aligned with science-based targets
 - ➡ Whether the disclosed information explains the alignment with the Paris Agreement
 - Whether the short- to mid-term targets are determined using a GHG emissions forecast calculated based on a climate change scenario analysis
 - ➡ Whether scenarios, etc. widely recognized in the international community are used or referenced
 - Whether the actual values of the indicators used for the targets are quantitatively measured using consistent measurement methods
 - ➡ Whether a specific GHG emissions reduction measure has been developed to achieve short- to mid-term targets aligned with long-term goals

20 In addition to benchmarks indicated by the IEA, there are those referenced by the IPCC, such as RCP 2.6 (keep global warming to below 2°C), RCP 1.9 (keep global warming to below 1.5°C) and other related Transition Pathway Initiative (TPI) benchmarks. Meanwhile, scenario listings are available in the TCFD Technical Supplement and in the document published by the Ministry of the Environment: "[Practical Guide for Scenario Analysis in line with TCFD Recommendations](#)".

21 An example of a sector-specific roadmap formulated by a public organization is the "[Roadmap to Zero Emission from International Shipping](#)" (Ministry of Land, Infrastructure, Transport and Tourism; 2020). The Ministry of International Trade and Industry also plans to formulate a roadmap for high-emission industries.

22 In utilizing a plan formulated at a sector level, it is necessary to have a credible proposition that the alignment with the Paris Agreement can be explained with scientific grounds.

23 While it is possible to set short- to mid-term targets by determining the standard based on an assumed use of best available technologies (BAT), consideration should be made as to whether the use of such technologies might make it difficult to achieve long-term targets.

(4) Element 4: Implementation Transparency

○ Main issue

- a) In implementing transition strategies, the fundraiser should provide transparency of the basic investment plan to the extent practicable.
- b) The investment plan includes not only capital expenditure (Capex) but also capital and operational expenditure (Opex). Therefore, costs related to research and development, M&A, and dismantling and removal of facilities are also subject to the investment plan. In other words, it is recommended that the investment plan incorporate, to the extent possible, expenditure and investment necessary for implementing the transition strategy.
- c) It is recommended that the investment plan outline the assumed climate-related outcomes and impacts²⁴ in a quantitative fashion where possible, along with the calculation methods and prerequisites²⁵. If quantification is difficult, the use of external certification systems can be considered as a substitute for qualitative assessment.
- d) In particular, when outlining the assumed climate-related outcomes and impacts, it is recommended that the disclosure include not only GHG emission reduction and other initiatives to ease climate change but also report how consideration of a “just transition”²⁶ is incorporated into the transition strategy.
- e) If implementing the transition strategy has the potential of having a negative impact on employment or the environment and communities other than climate change, it is recommended that any expenditures to mitigate such negative impacts be added to the plan.
- f) Moreover, the outcomes arising from investments included in the investment plan should align with the targets.
- g) Transition finance is a means to financially support the implementation of a transition strategy, and it is recommended that financing be provided for new initiatives. However, in the case of transition finance in the format of Use of Proceeds instruments, refinancing for a reasonably set lookback period (the period during which refinancing is to be applied for projects that have already started) is considered to be eligible.

24 The Ministry of the Environment, in its “Concept Paper on Impact Finance”, refers to impact as “a positive or negative change to the environment, society or economy caused by an organization and is not a direct deliverable or output but an outcome as a change brought about in terms of the environment, society or economy.”

25 In disclosing impacts, outlining the amount of contribution to reducing CO₂ emissions in the global value chain on the whole and the entire lifecycle, including the consumption phase, can be considered. For the amount of contribution to the reduction, it is possible to reference the “[Guideline for Quantifying GHG Emission Reduction Contribution](#)” (METI, 2018). Furthermore, as for outcomes on research and development, it is possible to reference the [IEA](#) Measuring Innovation by Technology Readiness Level (TRL) or Importance for Net-Zero Emission, among others, and outline the progress in the R&D phase or the potential of reducing CO₂ emissions with the relevant technology by highlighting the importance of net-zero emissions.

26 A just transition is an attempt to ensure the wide sharing of virtual profits created through a transition to a green economy, as well as to support any party who will experience an adverse economic impact (be it a country, a region, an industry, a community, a worker, or a consumer). The concept of a just transition corresponds to several SDGs.

○ Disclosures

- h) It is recommended that investment plans be disclosed by linking the outcomes and impacts with the expenditures to the extent practicable²⁷.
- i) It is recommended that the fundraiser, after securing financing, reports any deviations between the initial plan and the actual expenditure, outcomes and impacts. For any deviations, it is recommended that the underlying reasons be explained.
- j) In cases where the Use of Proceeds bonds include refinancing, the fundraiser should provide an explanation on the lookback period set under the framework or other relevant methods along with the underlying reasons and factors.
- k) While there are differences in business practices, such as the fact that loans are traditionally made based on the bilateral relationship between a borrower and a lender, it is recommended that disclosure on the above be made to the extent possible in order to ensure transparency and credibility of transition finance. However, if it is difficult to disclose such information to the public from the standpoint of confidentiality and competition, it is possible to report such information only to lenders or external evaluation organizations without disclosing it to the public.
- l) Similarly, in cases where the fundraiser is a small-to-medium-sized enterprise and it is difficult to disclose to the public the same content as that reported to the financier or an external evaluation institution, it is possible for the fundraiser to simplify the content of disclosure, for example, by limiting disclosure to a summary of h) to j) of this section.

²⁷ In particular, disclosure of investment plans is expected to be required for projects applicable to Use of Proceeds.

Appendix1. Committee

Chair

Kunio Ito
Director of Hitotsubashi CFO Education and Research Center

Committee members

Keigo Akimoto
Group Leader/Chief Researcher, Systems Analysis Group,
Research Institute of Innovative Technology for the Earth

Takahiro Ueno
Senior Researcher, Socio economic Research Center, Central Research
Institute of Electric Power Industry ISO/TC 322 Expert

Shunsuke Oshida
Managing Director, Head of Credit Research, Japan, Manulife Investment Management (Japan) Limited

Atsuko Kajiwara
Head of Sustainable Finance Evaluation Dept, Japan Credit Rating Agency, Ltd

Akihiro Kato
Director, Sustainable Business Unit, Solution Product Division, MUFG Bank, Ltd.

Tadahiro Kaneko
General Manager, Sustainable Business Promotion Dept., Planning Dept., Wholesale Banking Unit,
SUMITOMO MITSUI BANKING CORPORATION

Masato Kanedome
Principal, Sustainability Service Group. DNV Business Assurance Japan K.K.

Hitomi Kibo
Director, Sales Department, AXA Investment Managers, Ltd.

Shinichiro Kon
Nippon Life Insurance Company, Finance & Investment Planning Department, Deputy General Manager

Yukari Takamura
Professor, Institute for Future Initiatives, The University of Tokyo

Naoto Takeuchi*
General Manager, Credit Dept, The Dai-ichi Life Insurance Company, Limited.

Keisuke Takegahara
Executive Officer, Deputy Chief Research Officer, Development Bank of Japan

Masami Hasegawa
Director, Environment & Energy Policy Bureau, Keidanren(Japan Business Federation)

Reiko Hayashi
Director and Deputy President, BofA Securities Japan Co., Ltd.,
Board Member, International Capital Markets Association (ICMA)

Tomoko Hirabayashi
Joint General Manager, Syndicated Finance Department, Mizuho Bank, Ltd.

Michiaki Wada*
Line Manager, Investment Planning Dept., The Dai-ichi Life Insurance Company, Limited

*From 3rd commission, Michiaki Wada took over the committee from Naoto Takeuchi.

Observer

The Life Insurance Association of Japan
Japanese Bankers Association
JAPAN INVESTMENT ADVISERS ASSOCIATION
JAPAN EXCHANGE GROUP
United Nations Environment Programme Finance Initiative
Principles for Responsible Investment
Japan Securities Dealers Association

Appendix2. Dialogue participants

1. Securities

Nomura Securities Co., Ltd.
Mizuho Securities Co., Ltd.
BNP Paribas Securities (Japan) Ltd.
JPMorgan Securities Japan Co., Ltd.
Goldman Sachs Japan Co., Ltd.
Daiwa Securities Co. Ltd.
Tokai Tokyo Securities Co., Ltd.
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.
SMBC Nikko Securities Inc.
BofA Securities Japan Co., Ltd.
Crédit Agricole CIB - Tokyo Branch

2. External Evaluation Organizations

Vigeo-Eiris
Rating and Investment Information, Inc.
DNV BUSINESS ASSURANCE JAPAN K.K.
Japan Credit Rating Agency, Ltd.

3. Industry Sectors

Japan Automobile Manufacturers Association
Japan Paper Association
Petroleum Association of Japan
Japan Iron and Steel Federation
Japan Cement Association
The Japan Gas Association
Japan Chemical Industry Association
The Federation of Electric Power Companies of Japan
Japan Electrical Manufactures' Association

4. ESG Ratings

CDP Worldwide-Japan
MSCI
Sustainalytics.
FTSE Russell
S&P Dow Jones Indices LLC.