



Supervisory Guidance on Climate-related Risk Management and Client Engagement

Background

- ❑ As part of a series of area-specific supervisory guidance based on the “JFSA’s supervisory approaches” (June 29, 2018), the FSA published **Supervisory Guidance on Climate-related Risk Management and Client Engagement**.
- ❑ This guidance documents **viewpoints of supervisory dialogues** regarding Financial Institutions’ (FIs’) climate-related risk management and FIs’ engagement with their clients to support the clients’ responses to climate-related opportunities and risks, including **possible approaches and case examples of client engagement**.
- ❑ This guidance is non-binding and serves as a baseline for supervisory dialogues between the FSA and FIs to promote better practices at FIs.

Outline of the Supervisory Guidance

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*Viewpoints of
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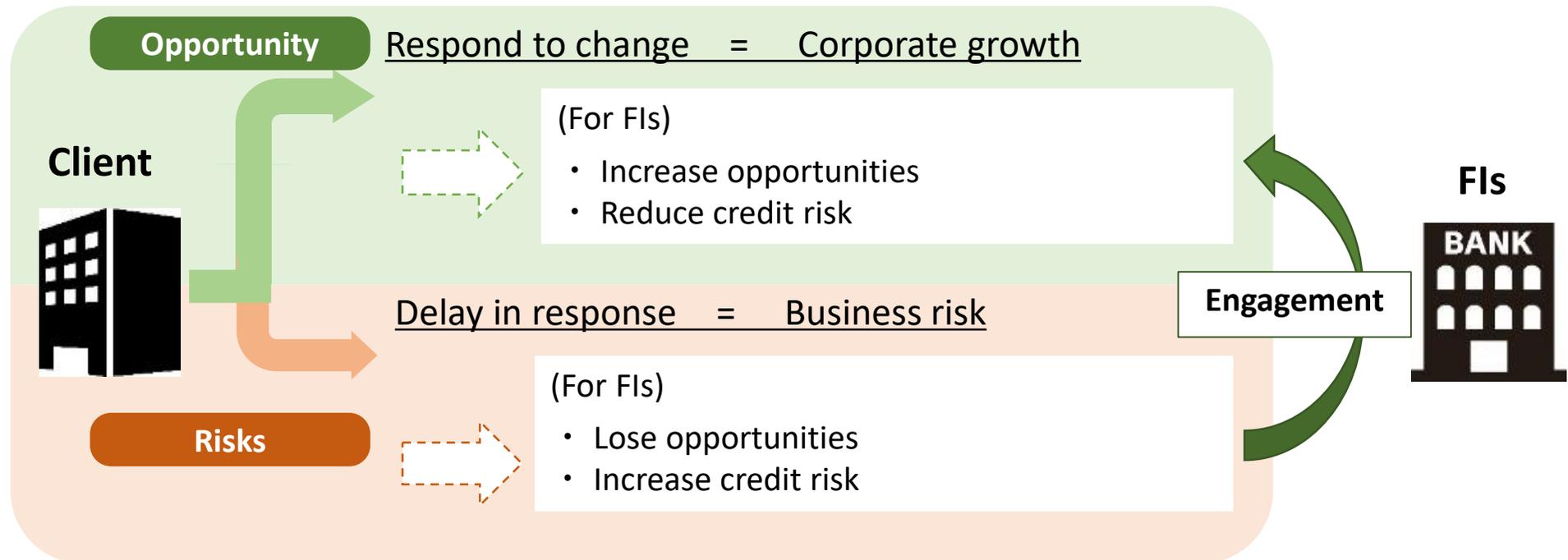
Going Forward



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Key Message

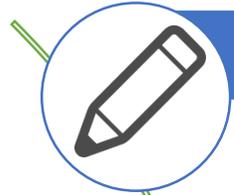
- As companies face various challenges related to climate change, it is important for financial institutions to build a resilient business foundation and sustainable business models through engaging in their clients and supporting clients' responses to climate-related opportunities and risks.





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Viewpoints of Supervisory Dialogue



Developing Strategies and Establishing Governance

- Recognizing climate change response as a management issue, formulating a strategy for company-wide, and establishing an appropriate framework in line with this strategy.



Identifying and Assessing Opportunities and Risks

- Identifying and assessing opportunities and risks that climate change brings to clients and FIs' own business management in a forward-looking manner.
- Utilizing scenario analysis to further develop FIs' own strategies.



Supporting Clients' responses to Climate Change and Managing Climate-related Risks

- Reducing FIs' climate-related risks over the medium to long term through proactively supporting the climate change response including transitions of clients.
- Assessing and responding to how climate-related risks will affect each risk category over the medium to long term, while taking into account their own business characteristics.



Sharing Information with Stakeholder

- Providing stakeholders with useful and accurate information on FIs' strategies, policies to support clients' climate change responses, and climate-related risk management.



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Approaches and Case Examples of Client Engagement

- ❑ FIs are encouraged to accumulate their knowledge of climate change and understand the effect on clients of the evolution in technologies, industries, and natural environments caused by climate change. FIs are also encouraged to provide support to clients, such as those exemplified below, taking into account the status and needs of each client.

Providing Consulting and Solution-delivery Services

- Examples
- Supporting clients in making their greenhouse gas emissions “transparent”
 - Establishing a link between clients who do not have energy-efficient technologies and those who do (client-client matching)

Supplying Funding for Growth

- Examples
- Providing financing to support decarbonization programs tailored to the specific needs of clients (e.g., transition loans and green loans)
 - Providing financing via growth-targeted investment funds that leads to fostering new technologies and industries in response to climate change

Providing Area-wide Support / Improving Cooperation among Stakeholders

- Examples
- Providing area-wide support, such as mapping out a strategy for a group of linked suppliers in a certain region, taking into account the strategies of core manufacturers
 - Supporting community-wide initiatives toward decarbonization and resource utilization in collaboration with local governments and research institutes



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Identifying issues in line with the Size and Characteristics of FIs



Supporting FIs' Engagement in Clients' responses to Climate Change



Exercising Scenario Analysis



Contributing International Discussions



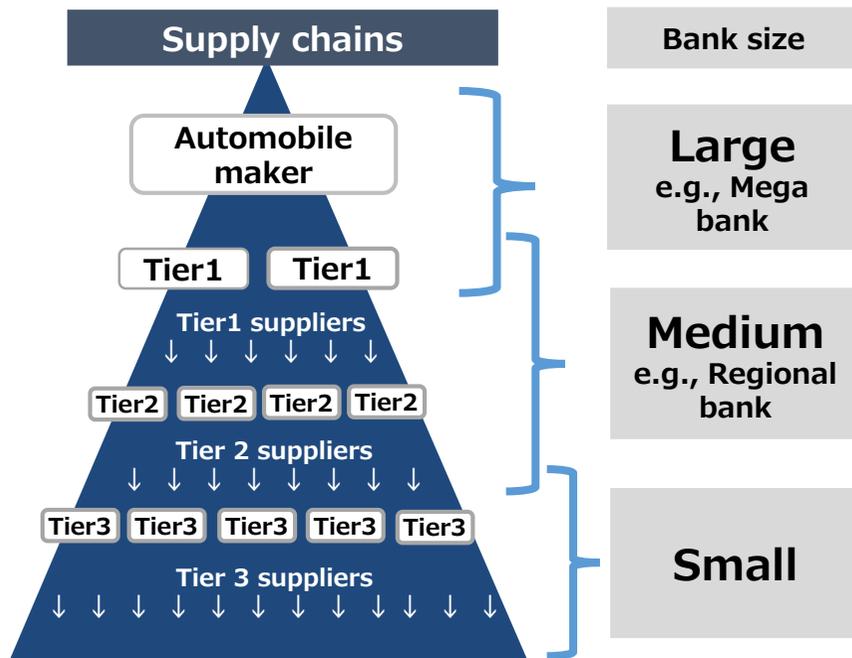
Coordinating with Government-wide Efforts



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Case Study: Financial institutions' initiatives of proactive engagement with customers

- ❑ For industrial sectors involving multi-layered supply chains, such as the automobile industry, a successful transition requires communication and collaboration among all entities, from top-tier makers to small- and medium-size suppliers, from big banks to small cooperative financial institutions.
- ❑ In order to facilitate such communication, a local finance bureau, in collaboration with a local office of a relevant ministry, organized a meeting of representatives from an automobile maker, top-tier suppliers, and financial institutions, from big banks to small ones.



Member	An automobile maker, major tier 1 suppliers and financial institutions from big to small ones
Background	<ul style="list-style-type: none">•The automobile industry has broad and multi-layered supply chains, with different types of cooperative financial institutions in each layer.•In order to facilitate decarbonization, it is essential to share information between the automobile industry and financial institutions across all layers.
Examples	<ul style="list-style-type: none">•The automobile maker and tier 1 suppliers share with the financial institutions the work plan toward decarbonization.•The financial institutions share the issues of carbon neutrality faced by small and medium size suppliers.