

Report of the Working Group on Financial Institutions' Efforts towards Decarbonization of the Economy

Overview

- In accordance with the global effort to accelerate the transition towards Net-zero, the importance of the role of FIs, which engage with customer companies, has been growing. However, the practical way to engage is still under discussion at global level. Discussions about the way of engagement have been held at the JFSA's Working Group since last fall, and the final report was published on June 27th.
- The report points out that continuous and practical engagement by FIs is integral to achieve transition to Net-zero. The report also includes recommendations ("Guides"), illustrated below, to help FIs to understand more about strategy towards Net-zero.

Recommendations (Guides) for FIs to Support Non-financial Companies' Decarbonization

How to Understand Transition of FIs

Guide 1

- It is very important to check the progress of transition plan as transition will extend over the mid-to-long term and has a significant business impact.
- However, there is no single, absolute evaluating indicator. Therefore, transition plans should be evaluated from comprehensive perspective; various quantitative indicators including "financed emissions" (emissions x financing volume), and qualitative indicators.

Suitability of Emission Trajectory for pathways

Guide 3

- Transition strategies need two elements: "Pathways", country/sectoral emission scenario calculated backward from global emission target, and "Emission Trajectory (of transition plan)" for each FI/company based on the pathways.
- Emission Trajectory should be developed and reviewed by individual company, taking into account the sector, region, strategy of the company. It is necessary to fully understand the details of business.

Visualizing/developing GHG emissions data

Guide 2

- It is necessary to consolidate emissions data not only for client companies but also for companies in their supply chains.
- Currently, the formats and platforms for emissions data are not unified or standardized. Establishing common platform for emissions data should be considered.



Investors and stakeholders in financial institutions

Approach



Financial institution

Engage



Business

Expanding finance in Asian countries/ Promoting transition finance

Guide 4

- Although GX is a global issue, Asian countries need more finance considering their geographical/economic circumstances. There is also room to make use of Japan's experience.
- It is important to enable early retirement of high-emitting assets in Asian countries with the impact to financed emissions being carefully explained. Generating Carbon Credits would be one way to help transition finance to be accelerated.

Cooperate



Emerging Asia



Trading companies, etc.

Mobilizing more funds and investment to GX

Guide 5

- To enhance the GX, mobilizing equity investment is important, including funds from retail investors.
- At present, there are limited ways to gain equity investment. Wide range of instruments should be developed: blended finance, equity instruments with ESG features, and, impact investments towards carbon neutral, etc.

Supporting regional decarbonization

- Regional companies, which constitute supply chain of larger companies, are relatively lagging behind in decarbonization.
- Supporting measures are necessary: holding educational workshops, disseminating public supports information, employee development of regional FIs, etc.

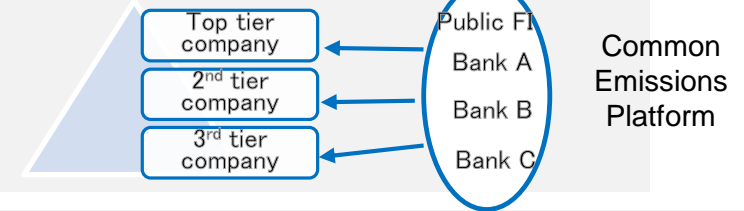
Recommendations to the Government for Supporting Decarbonization of FIs/non-financial Companies

- ❑ This report mainly focuses on recommendations related to engagement by FIs with client companies. However, governmental support measures and public-private cooperation are integral to such engagement. Therefore, the report includes the recommendations to governments, including relevant local branch offices/bureaus.

Initiatives Related to Development of GHG Emissions Data

- ✓ Support visualizing initiatives of FIs by engaging throughout the supply chain
- ✓ Standardization and sharing of data, development of common platform, and unification of formats
- ✓ Contribution to international discussion to enrich the corporate data

Emission Visualization across Supply Chain (illustration)



Promoting/Supporting Transition Finance

- ✓ Enhancing sector-by-sector "Technology Roadmaps" (Raising international recognition, illustrative emission pathways, etc.)
- ✓ Expanding transition finance in Asia
 - Form a consortium where FIs and corporates share information of GX projects
 - Consider the feasibility/framework of the generation of carbon credits from Managed Phase-out of high-emitting assets
- ✓ Understanding and monitoring the "carbon budgets" at a global level



Measures to Mobilize Various Decarbonization Capital

- ✓ Diversifying investment products to provide risk money towards GX/decarbonization
 - Promote issuance of preferred stocks/subordinated bonds with Green/Transition feature
 - Consider how to promote ESG investment trusts
- ✓ Promoting impact investment towards carbon neutral
- ✓ Promoting blended finance



Supporting Decarbonization among Local SMEs

- ✓ Holding workshops at local finance bureaus (disseminating the importance of decarbonization to SMEs, encouraging alliances of regional FIs, etc.)
- ✓ Disseminating public support measures via regional FIs (Developing a handbook of public support measures towards carbon neutral, etc.)