

Transition Finance in Japan

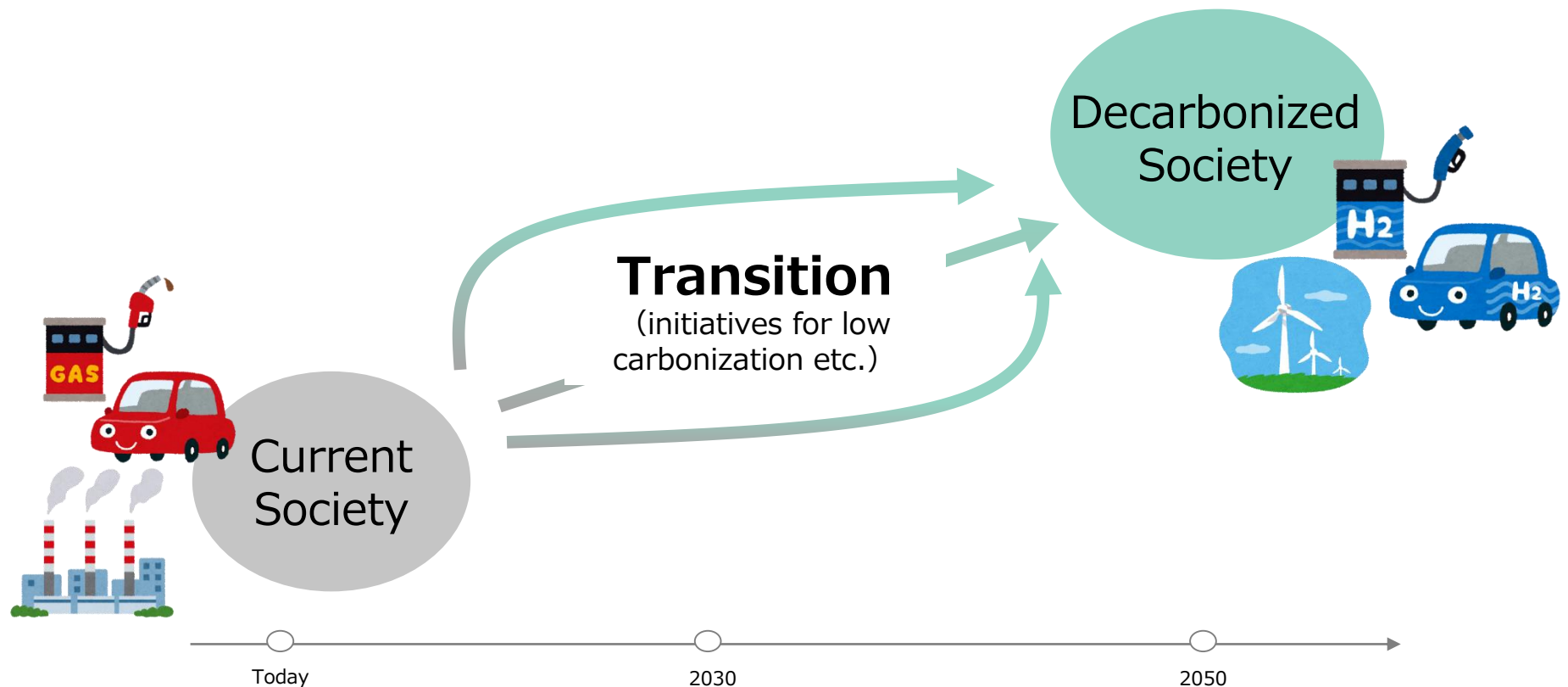
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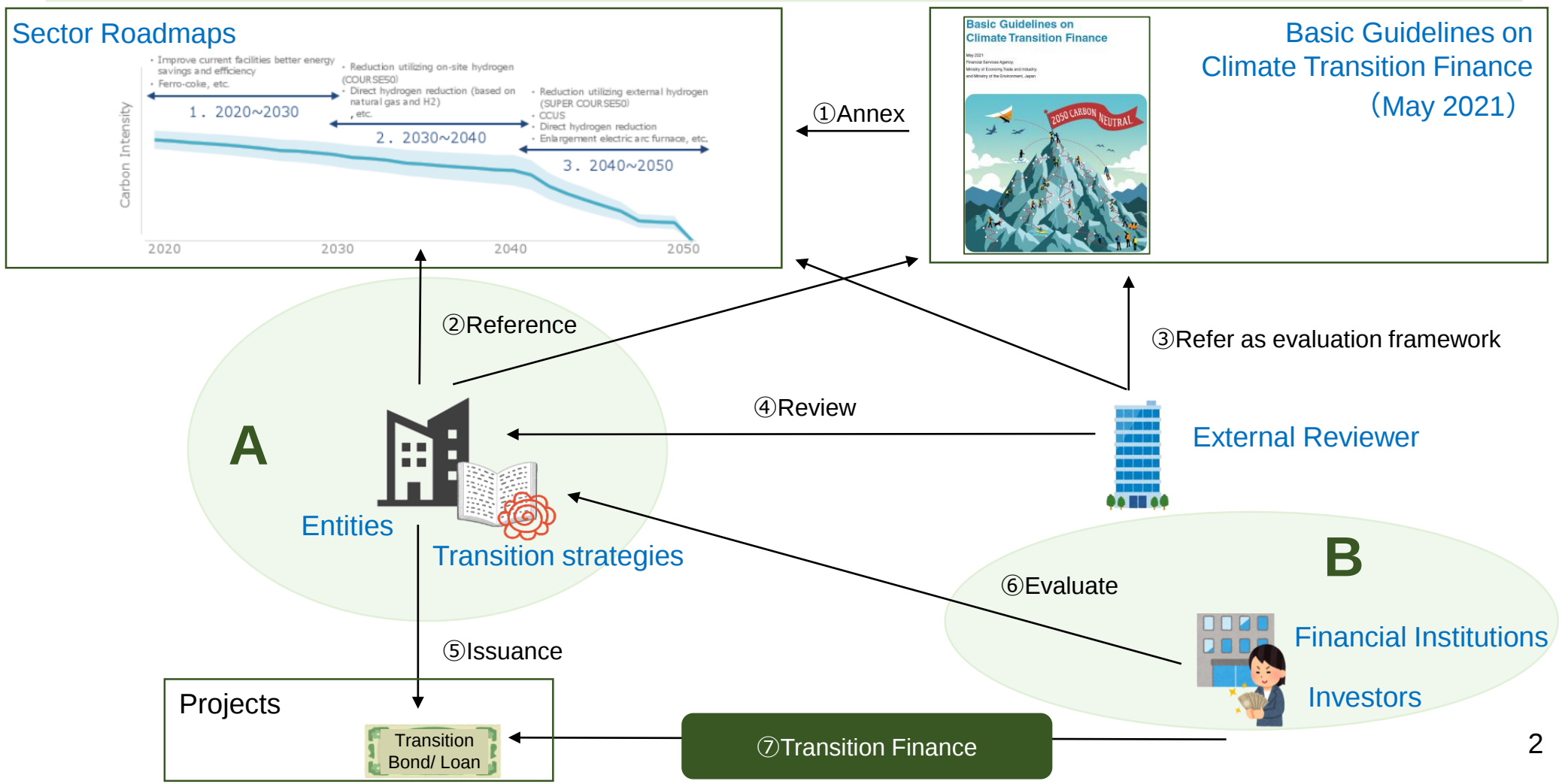
Background

- Japan submitted its NDC in April 2021: 46% GHG emissions reduction by 2030 vs. 2013, carbon-neutrality by 2050.
- It is essential to support entities' transition pathways towards the decarbonized society.
- Japan has been an early advocate of the importance of transition- and innovation finance (e.g., Climate Innovation Finance Strategy 2020), and has promoted various initiatives.



Transition Finance Initiatives in Japan (Overview)

- Japan adopts a sector- and entity-based approach (A and B in the figure below).
- As references for companies, investors and external reviewers, Japan's relevant government ministries published the Basic Guidelines on Climate Transition Finance and sector-specific technical roadmaps.



Basic Guidelines on Climate Transition Finance (May 2021)

What are the Basic Guidelines

- The Financial Services Agency, Ministry of Environment, and Ministry of Economy, Trade and Industry formulated the Guidelines to establish transition finance in line with the ICMA Climate Transition Finance Handbook.
- The Guidelines provide examples and interpretations of expected disclosure elements that serve as references for fundraisers and investors to consider concrete actions on transition finance.

Key Points

- Fundraisers are recommended to disclose four elements (see right) to aid investors' comprehensive judgement.
- Their strategies should be in line with internationally recognized scenarios, such as IEA's. NDC and government directions, such as Japan's sector roadmaps, can be also referred to.
- External verification and assurance are also recommended.

Element

1

**Strategy and
Governance**



Element

2

**Environmental
Materiality**



Element

3

**Science-
based
Strategies
Targets & Pathways**



Element

4

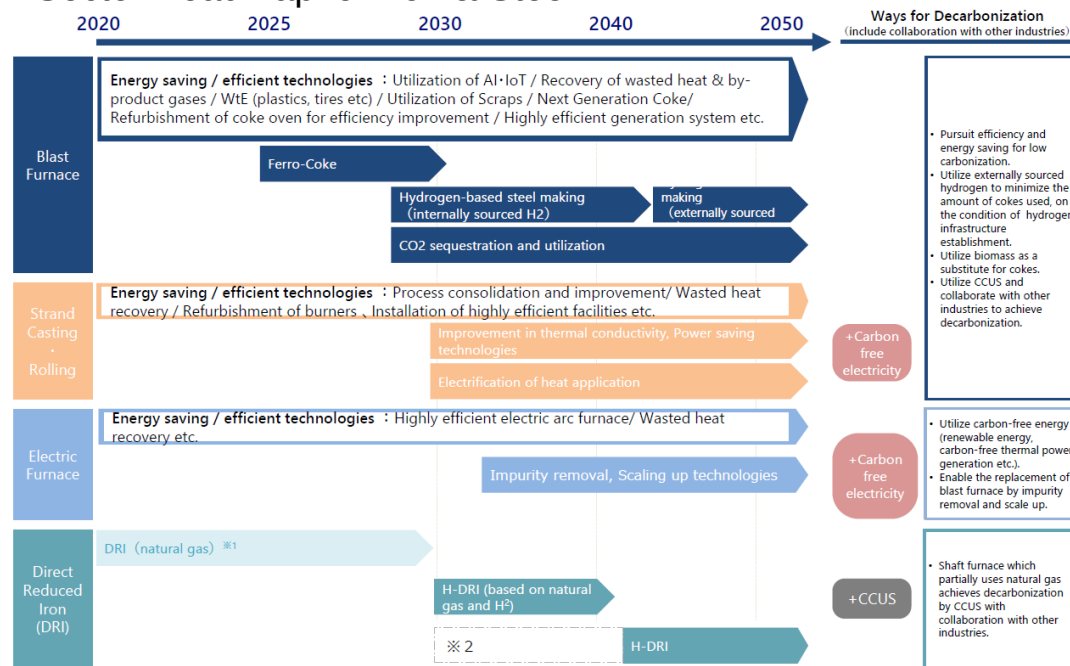
Transparency



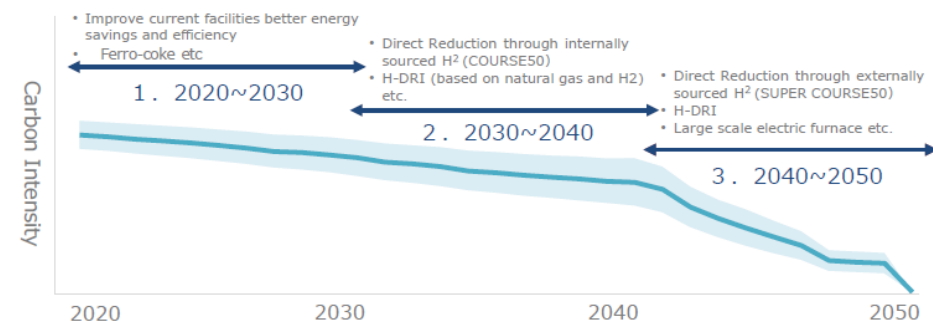
Sector Roadmaps

- The Roadmaps show the technologies that are expected to be necessary in order to make each hard-to-abate sector carbon neutral by 2050 with a scientific basis. They are aligned with the Paris Agreement and government policies.
- The Roadmaps are Annexes to the Basic Guidelines and serve as a reference for companies to consider climate measures to be financed by transition bonds/loans. Investors and financial institutions can also refer to them to evaluate a company's strategy and efforts.
- The Roadmaps have been developed for 10 roadmaps for 9 hard-to-abate sectors: iron & steel, chemicals, electricity, gas, oil, cement, paper & pulp, shipping and aviation.

< Sector Roadmap for Iron & Steel >



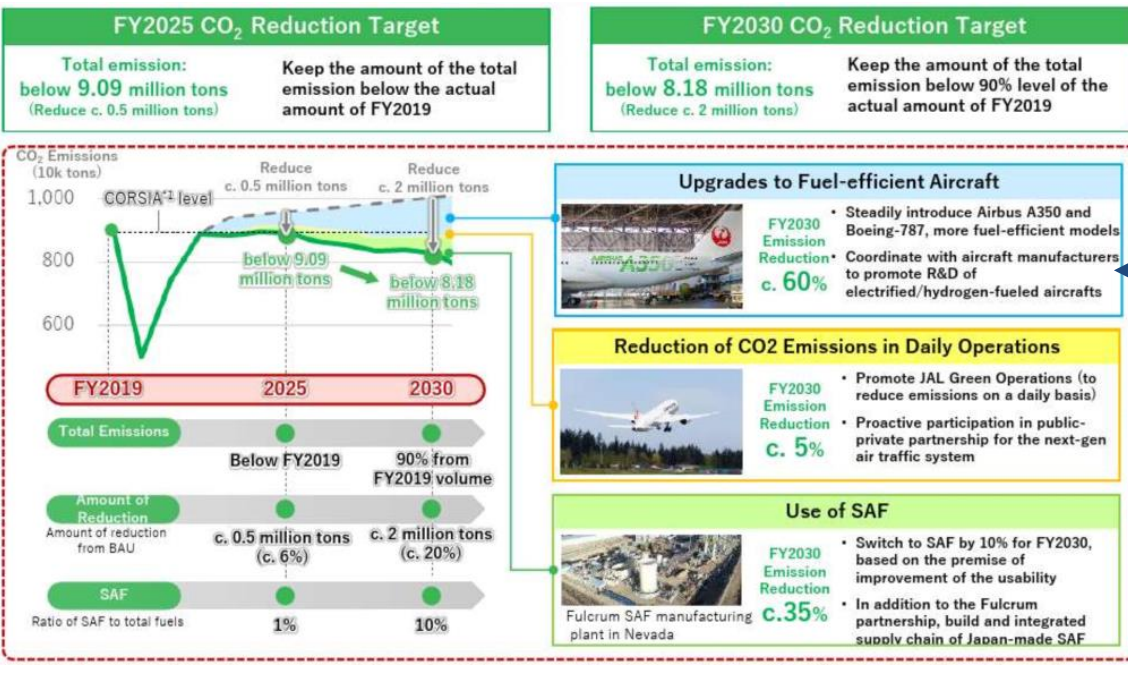
Assumed CO₂ Reduction Pathway*



Model Projects

- 12 model projects were developed in FY2021 that are aligned with the Basic Guidelines, in shipping, chemical, iron/ steel, energy, aviation and heavy engineering sectors.
- For example, Japan Airlines issued transition bonds to achieve its CO2 reduction targets by 2030 by several projects including upgrading its fleet to fuel-efficient aircrafts. The Framework on which its transition bonds issuance is based has obtained an external review showing that it is aligned with relevant market standards.

CO2 Reduction Targets and Initiatives by 2030 (May 2021)



financing

Transition Bond Framework (November 2021)

- Use of Proceeds
- Process for Project Evaluation and Selection
- Management of Proceeds

External Review

- ICMA Green Bond Principles
- ICMA Climate Transition Finance Handbook
- Japan's Green Bond Guidelines
- Japan's Basic Guidelines on Climate Transition Finance



Key Takeaways

- In our sector- and entity-based approach, each company develops a credible transition strategy, which is then evaluated and reviewed by investors, financial institutions, and external evaluators.
- “Dynamic”, “Flexible” and “Interactive” are three key takeaways of our experiences.

Dynamic



- Sector roadmaps are practical tools which capture and depict “movement” toward transitions, unlike “static” categorization of economic activities.
- This enables companies to develop dynamic transition strategies.
- Transition strategies should be revised and updated in a timely manner.

Flexible



- The Basic Guidelines and roadmaps give enough clarity of effective practices and future outlook that companies can refer to, but they are not uniform “rigid” standards.
- Companies can flexibly develop their own transition strategies by referring to various international/ national tools, depending on their sector and transition situation.
- Transparency is needed in strategy rationale and evaluation.

Interactive



- Efforts by all stakeholders (e.g., the development and evaluation of transition strategies) should be refined through dialogue from a variety of perspectives.
- This interactive process contributes to the credibility and capacity of these efforts.

Next Steps

- All public and private stakeholders need to strengthen their efforts further.
- The Japanese government will continue its efforts in cooperation with the private sector.

Public sector needs to support and improve the overall approach to transition finance.



Public sector

Investors, FIs and external reviewers need to engage appropriately with companies, referring to companies' transition plans and strategies



Investors
Financial Institutions (FIs)
External reviewers

Companies need to develop credible transition plans and strategies referencing the Guidelines and Roadmaps



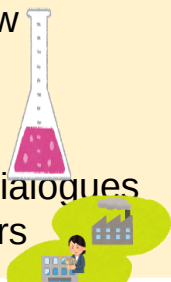
Companies

Revising and updating the Roadmaps

Adding a roadmap for automobile sector

Maintaining their credibility and usability by reflecting new developments.

Progress of technologies
Dialogues with the investors



Developing a code of conduct regarding ESG rating and data providers

Contributing to enhancing the quality of external reviews to corporate transition plans and strategies.

Encouraging FIs' engagement

The guidance documents viewpoints of supervisory dialogues and case examples on FIs' climate-related risk management and engagement with their clients to support the clients' responses to climate change.

Establishing the GX League

A forum where leading companies transitioning to carbon neutrality cooperate with the government and academic spheres to contribute to the "green transformation" of the Japanese economy.

Participating companies are required to publish their initiatives, such as:



Their own emission reduction targets for 2030 for working toward carbon neutrality by 2050

Reference List

Climate Innovation Finance Strategy 2020 (Sep 2020, METI)

https://www.meti.go.jp/english/press/2020/0916_001.html

Basic Guidelines on Climate Transition Finance (May 2021, FSA, METI, and MOE)

https://www.meti.go.jp/english/press/2021/0507_001.html

Sector Roadmaps

- Iron & Steel https://www.meti.go.jp/english/press/2021/1027_002.html
- Chemicals https://www.meti.go.jp/english/press/2021/1210_003.html
- Electricity, gas, oil (in Japanese)
<https://www.meti.go.jp/press/2021/02/20220204001/20220204001.html>
- Cement, paper & pulp
https://www.meti.go.jp/english/press/2022/0324_003.html
- Shipping https://www.mlit.go.jp/en/maritime/GHG_roadmap_en.html
- Aviation (in Japanese) <https://www.mlit.go.jp/common/001445923.pdf>

Model Projects

- JAL Transition Bond <https://www.jal.com/en/sustainability/transitionbond/>

Draft Supervisory Guidance on Climate-related Risk Management and Client Engagement (in Japanese) (Apr 2022, FSA)

<https://www.fsa.go.jp/news/r3/ginkou/20220425/20220425.html>