Material 1

Provisional Translation

Attention to Sustainability and ESG

February 15, 2021
Japan Financial Services Agency

(1) General Remarks

(1) Reference to sustainability in Corporate Governance Code and Stewardship Code

- The current **Corporate Governance Code** requires listed companies to **take appropriate measures** to address sustainability issues.
- **The last revision of the Stewardship Code (March 2020) added the consideration of sustainability (medium- to long-term sustainability including ESG factors).**

Corporate Governance Code (Excerpt)

Section 2: Appropriate Cooperation with Stakeholders Other Than Shareholders

【Principle 2.3 Sustainability Issues, Including Social and Environmental Matters】

Companies should take appropriate measures to address sustainability issues, including social and environmental matters.

Supplementary Principle 2.3.1 **With the recognition that dealing with sustainability issues is an important element of risk management**, **the board should take appropriate actions to this end**. Given the increasing demand and interest with respect to sustainability issues in recent years, **the board should consider addressing these matters positively and proactively**.

Section 3: Ensuring Appropriate Information Disclosure and Transparency

Note (…) It has been noted that while the quantitative part of financial statements of Japanese companies conform to a standard format and therefore excel with respect to comparability, non-financial information, such as financial standing, business strategies, risks and ESG (environmental, social and governance) matters, is often boiler-plate and lacking in detail, therefore less valuable. The board should actively commit to ensure that disclosed information, including non-financial information, is as valuable and useful as possible. (…)

Stewardship Code (Excerpt)

Principles for Responsible Institutional Investors ≪Japan's Stewardship Code≫ (Preamble)

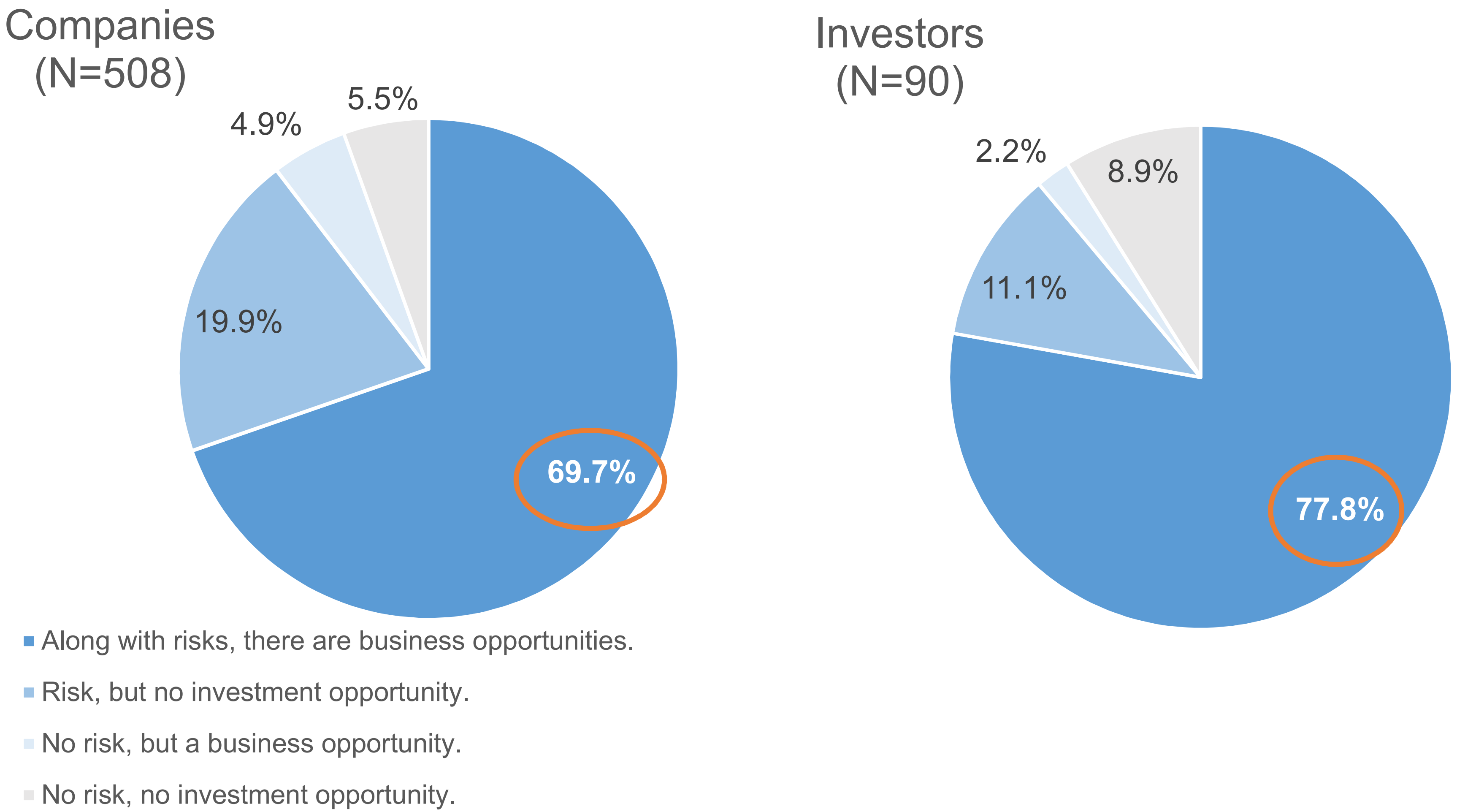
In this Code, "stewardship responsibilities" refers to the responsibilities of institutional investors to enhance the medium- to long-term investment return for their clients and beneficiaries (including ultimate beneficiaries; the same shall appliy hereafter) by improving and fostering the investee companies' corporate value and sustainable growth through constructive engagement, or purposeful dialogue, based on in-depth knowledge of the companies and their business environment <u>**and consideration of sustainability (medium- to long-term sustainability, including ESG factors) consistent with their investment management strategies**</u>. This Code defines principles considered to be helpful for institutional investors who behave as responsible institutional investors in fulfilling their stewardship responsibilities with due regard both to their clients and beneficiaries and to investee companies. (…)

(*)The underlined portions were added in the March 2020 revision.

(1) Companies and investor awareness of climate change

- The majority of companies and investors alike consider climate change as **a risk as well as an investment and business opportunity**.

Views and stances on climate change (Survey of investor and company attitudes (2019FY))



Source: Prepared by JFSA from the Life Insurance Association of Japan "Questionnaire on initiatives to enhance corporate value (FY2019 ver.)"

(1) Challenge Zero (June 8, 2020 Keidanren (Japan Business Federation))

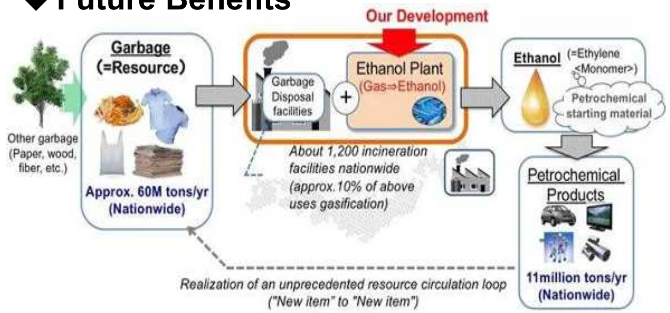
- "Challenge Zero" actively take challenges for (i) development of net zero emission technologies (including transition technologies), (ii) its deployment and (iii) finance for companies actively engaged in such challenges. The following are some examples of such innovations.

(*) "Challenge Zero" is an initiative aiming to proactively publicize and support actions to create innovation taken by companies and organizations towards a "decarbonized society".

Turning "Garbage" into Ethanol = Establishing a first-in-the-world innovative production technology (SEKISUI CHEMICAL CO., LTD.)

◆ Newly Established Technology

◆ Future Benefits



SEKISUI CHEMICAL CO., LTD. and LanzaTech Inc. have developed the world's first successful production technology for transforming waste into ethanol. The new technology gasifies combustible waste accumulated at waste disposal facilities without any sorting, and converts this gas into ethanol using a microbial catalyst that does not require application of any heat or pressure (i.e. without needing additional energy input). The method is significantly cost-competitive compared to existing processes for producing industrial ethanol. This innovative achievement enables garbage — which exists in large volumes but has otherwise limited industrial use — to be used as a replacement for fossil resources.

CO2 removal air conditioning system(SHIMIZU CORPORATION)

The "CO2 reduction air conditioning system" for indoor workplaces is a technology developed by Shimizu Corporation through joint research with Seibu Giken Co., Ltd.

Supporting the realization of a "decarbonized society" through the sophistication of the investment chain (Sumitomo Mitsui Trust Holdings, Inc.)

As a "responsible institutional investor," we incorporate ESG factors, which affect corporate value such as medium-to-long-term business opportunities and risks, in addition to financial information such as corporate performance, into our investment of equities and fixed incomes. We also place great importance on solving ESG issues in our stewardship activities such as engagement with companies and exercise of voting rights. Addressing ESG issues leads to a sustainable society while pursuing upside potential and curbing downside risk of corporate value, as a result, we believe that this will lead to the fulfillment of our responsibility to increase the return on investment for our customers, namely stewardship responsibility.

Positioning climate change as one of the most important themes of ESG issues, properly understanding the risks and opportunities associated with this issue and contributing to a smooth transition to a low-carbon and decarbonized society through engagement, we have an important role to play in the investment chain.

Source: Keidanren (376 cases including the above)

(1) Basic Approach to Sustainable Finance on Climate Change and Concrete Actions
(Keidanren, 9 October, 2020)

- Keidanren (Japan Business Federation) also mentioned **the importance of disclosure as a future action to further promote sustainable finance**.

Basic Approach to Sustainable Finance on Climate Change and Concrete Actions (Keidanren, October 9, 2020)

3. Actions to Further Promote Sustainable Finance
(4) Disclosure

In order to create positive money flows in which companies taking concrete action toward achieving a decarbonized society are positively assessed by ESG investors as well as financial institutions in Japan and overseas, and thus gain access to funding, it is important that companies actively and effectively engage in climate-related disclosure on not only risks but also opportunities.

Japan has the largest number of entities supporting the TFCD Recommendations, and the TCFD Consortium has taken the initiative in pioneering efforts to compile guidelines to promote effective information disclosure in accordance with the TCFD Recommendations and to facilitate appropriate investment decisions. As written in the “ESG Report 2019” published by the Government Pension Investment Fund (GPIF), Japan's business community expects increased business opportunities in addressing climate change; and therefore, further possibilities may be pursued, such as positioning innovation and transition efforts as “opportunities” under the TFCD Recommendations.

It will be important to accumulate best disclosure practices and to enlighten ESG investors in Japan and overseas, seizing opportunities such as the TCFD Summit. **We must continue our efforts to increase the number of companies practicing disclosure in accordance with the TFCD Recommendations, encouraging constructive dialogue and engagement among companies and financial institutions/investors.** Financial institutions and investors are expected to properly understand the novelty and challenges of corporate technologies and innovations and to play the role of coordinators that organize and facilitate partnership and collaboration among companies and industries that possess mutually complementary technologies and ideas.

There are ongoing discussions at the IFRS Foundation to set up a new board mandated with the development of sustainability reporting standards. The new board will develop standards, with a focus on climate-related risk, based on existing frameworks such as the TCFD Recommendations. When the new board is launched, Japan should actively join discussions on developing standards.

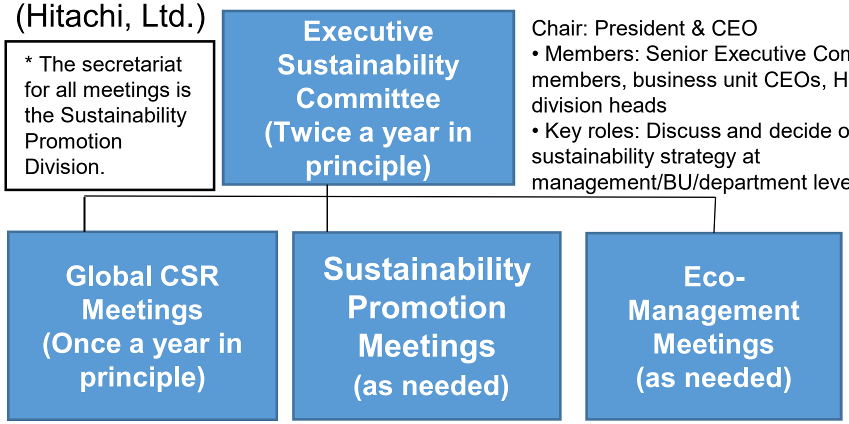
Furthermore, with the Act on Promotion of Global Warming Countermeasures and Japan's Corporate Governance Code, Japan has already had an established domestic institutional foundation regarding disclosure of greenhouse gas emissions and ESG. However, **given that Japan's Corporate Governance Code is to be revised next spring, Japan should also consider the need for further enhancement of existing institutional foundations, including clarifying the role of TCFD Recommendations in the field of climate change, while ensuring the independence and flexibility of corporate disclosure.**

(1) Companies' approaches to sustainability

- Japanese companies' approaches to sustainability-related committees are as follows. In some cases, the committee is positioned as an advisory body to the board, while in other cases it is positioned as the highest decision-making body on the executive side.

A case positioned as a decision-making body on the executive side

(Hitachi, Ltd.)



Chair: President & CEO
• Members: Senior Executive Committee members, business unit CEOs, Hitachi, Ltd. division heads
• Key roles: Discuss and decide on sustainability strategy at management/BU/department levels

Global CSR Meetings:
• Members: CSR and social contribution officers from business units and Group companies
• Key roles: Discuss specific measures for global sustainability strategy / Share activities in each region

Sustainability Promotion Meetings:
• Members: Business promotion division heads at BUs and key Group companies
• Key roles: Discuss and implement specific measures for sustainability strategy

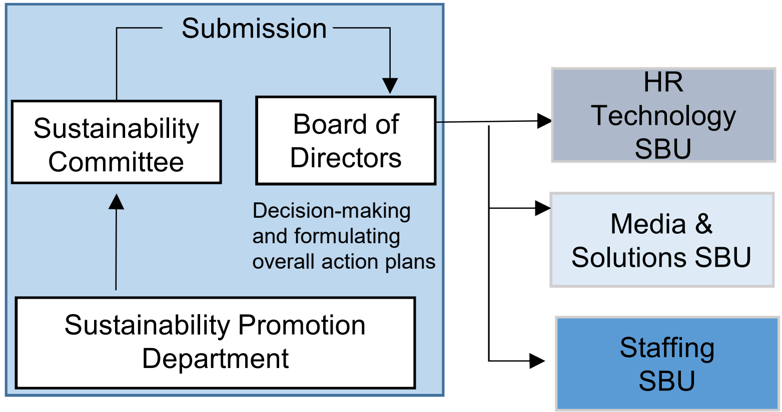
Eco-Management Meetings:
• Members: Environmental promotion division heads at BUs and key Group companies
• Key roles: Discuss and implement concrete measures to achieve long-term environmental targets in sustainability strategy

Hitachi's Executive Sustainability Committee meets twice a year to discuss and reach decisions on important policies and measures related to sustainability, share progress and results, and find ways to connect these to further improvements and new initiatives.
In fiscal 2019, the Executive Sustainability Committee held meetings in April and December. At the April meeting, in preparation for the May launch of the 2021 Mid-term Management Plan, the committee confirmed that creating social, environmental, and economic value as part of our management strategy would be pursued, and, alongside quantitative and qualitative evaluation of the social and environmental value to be created by each business, considered specific initiatives toward increasing environmental value.
At the December meeting, in order to create social, environmental, and economic value, the committee considered and made decisions on visualization and evaluation methods for social and environmental impacts as well as important policies and measures related to the environment, including our response to climate change.

Source: Prepared by JFSA from "Hitachi Sustainability Report 2020"

A case positioned as an advisory body to the board

(Recruit Holdings Co., Ltd.)



Recruit Group's Sustainability Committee is an advisory body to the Board of Directors that consists of the CEO, the responsible Board Director, the responsible Corporate Executive Officers, the head of each SBU, and four external sustainability experts.
The committee meetings occur semi-annually and are opportunities for Recruit Group's management teams to understand how social changes affect the expectations, demands, and critiques of Recruit Group. Committee members discuss short-, mid-, and long-term strategies, priorities, and goals focused on global sustainability.
(……)
Committee members discussed the Group's Human Rights Policy and Sustainability Agenda, both of which are based on international objectives set by global stakeholders. (……)
The meetings' takeaways were compiled into a revised Human Rights Policy and conceptual diagram called the "Recruit Group House of Human Rights." The revised policy, which was published in May 2020, (……)

Source: Prepared by JFSA from "Recruit Group Profile: Inside Out 2020" and the annual securities reports (FY2019) from Recruit Holdings Co., Ltd.

(1) Discussions in Davos Agenda (25 - 29 January, 2021)

- In September 2020, World Economic Forum published "**Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value Creation.**" In the Davos agenda in January 2021, **61 global business leaders across industries committed to these metrics**.
- This White Paper curated the set of 21 core (activities within an organization's own boundaries) and 34 expanded metrics (wider value chain scope). The recommended metrics are **organized under four pillars (Principles of Governance, Planet, People and Prosperity) that are aligned with the SDGs and principal ESG domains**. **For major reference standards, existing ESG disclosure frameworks such as TCFD recommendations and GRI** are described.

(*) Of the 61 companies, 7 are Japanese companies. (Mitsubishi Corporation, Mitsubishi UFJ Financial Group Inc., Sony, Sumitomo Corporation, Sumitomo Mitsui Financial Group (SMFG), Suntory Holdings, Takeda Pharmaceutical)

＜21 core metrics in White Paper＞

Pillar	Theme	Core metrics (21)	Main sources
Principles of Governance	Governing purpose	• Setting purpose	GRI
	Quality of governing body	• Governance body composition	GRI
	Stakeholder engagement	• Material issues impacting stakeholders	GRI
	Ethical behaviour	• Anti-corruption • Protected ethics advice and reporting mechanisms	GRI
	Risk and opportunity oversight	• Integrating risk and opportunity into business process	GRI
Planet	Climate change	• Greenhouse gas (GHG) emissions • TCFD implementation	GRI, TCFD, CDSB, SASB
	Nature loss	• Land use and ecological sensitivity	GRI
	Freshwater availability	• Water consumption and withdrawal in water-stressed areas	SASB
People	Dignity and equality	• Diversity and inclusion (%) • Pay equality • Wage level (%) • Risk for incidents of child, forced or compulsory labour	GRI
	Health and well-being	• Health and safety (%)	GRI
	Skills for the future	• Training provided (#, $)	GRI, SASB
Prosperity	Employment and wealth generation	• Absolute number and rate of employment • Economic contribution • Financial investment contribution	GRI, US GAPP／IFRS
	Innovation of better products and services	• Total R&D expenses ($)	US GAAP
	Community and social vitality	• Total tax paid	GRI

Source: World Economic Forum, "Measuring Stakeholder Capitalism Towards Common Metrics and Consistent Reporting of Sustainable Value Creation" (September 2020)

(1) Opinions about sustainability in the post-Covid society

- From May to September 2020, FSA interviewed domestic and foreign institutional investors and companies about the governance issues that they would like to focus on in the post-Covid era.
- Both companies and investors pointed out that, in addition to E (environment), attention is being paid to S (social) factors such as the role of employees and consideration for their safety.

Companies

- In terms of ESG, there has been a steady increase in **attention to S**.
- From the perspective of business survival, more attention is being paid to **employee safety**. We are planning to discuss how a company with many offices and business partners should implement measures for employee safety, including supply chain.
- Although Corona was not the impetus for this initiative, we established a headquarters for the creation of social value based on the question of how to continue to shine 100 years into the future and have published a sustainability report. With regard to **E of ESG**, the company has set CO_2 reduction targets and is conducting scenario analysis based on TCFD with the advice of investors.
- **We have been working on sustainability as an important issue**, and I do not feel that there has been any change in our thinking based on Covid-19. Rather than ESG, I think it is necessary to think about how to understand "corporate value" from a more medium- to long-term perspective.

Investors

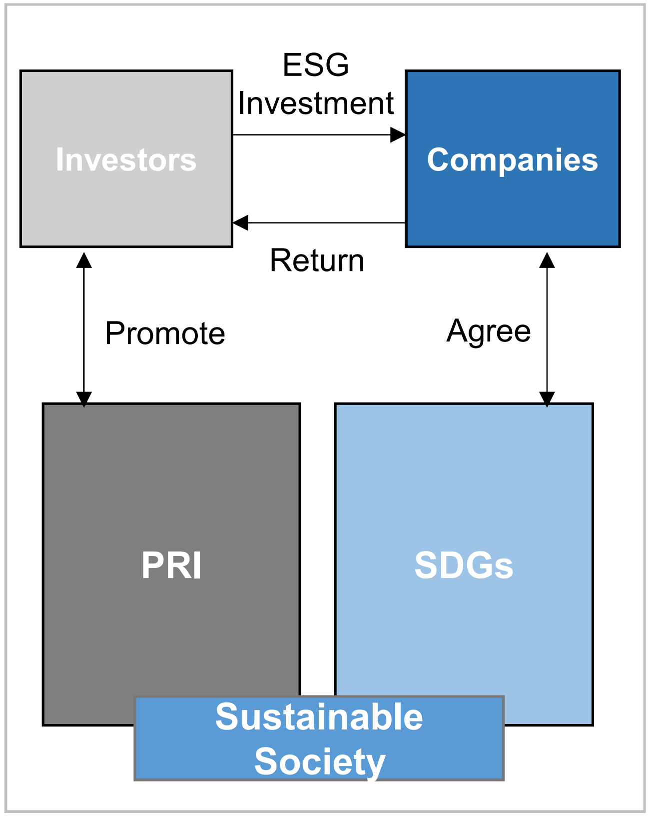
- **It is important to identify the stakeholders that are important to the company and whether the company is willing to support them to the fullest extent**, rather than just talking about ESG and SDGs.
- **How companies think about health and safety and how they acted this time** will be the theme of engagement.
- Companies tell us that after Covid-19, the role of individual employees will become more important, and they feel that the second work style reform will accelerate. With such rapid changes, **it will be important for management and the board to understand the status of employees**.
- With regard to sustainability, I believe that **the importance of "S", such as the safety of employees and how companies can contribute to the stability of society, will become even more important than in the past**.
- **We continue to focus on E from a long-term perspective in our dialogues**, and we are closely monitoring the future economic situation and the impact of future trends in energy prices, including crude oil. At any rate, the materiality of sustainability-related items differs depending on the region, business category, and industry, so we are conducting dialogue by carefully selecting priority items for each dialogue.
- In terms of ESG initiatives, the level of seriousness will be revealed through whether there are any delays or shelving of initiatives due to the slowdown in the performance of the core business.

(Note) Excerpts from the reference material in the 20th meeting of the Follow-up Council.

(1) Increased investments related to sustainability

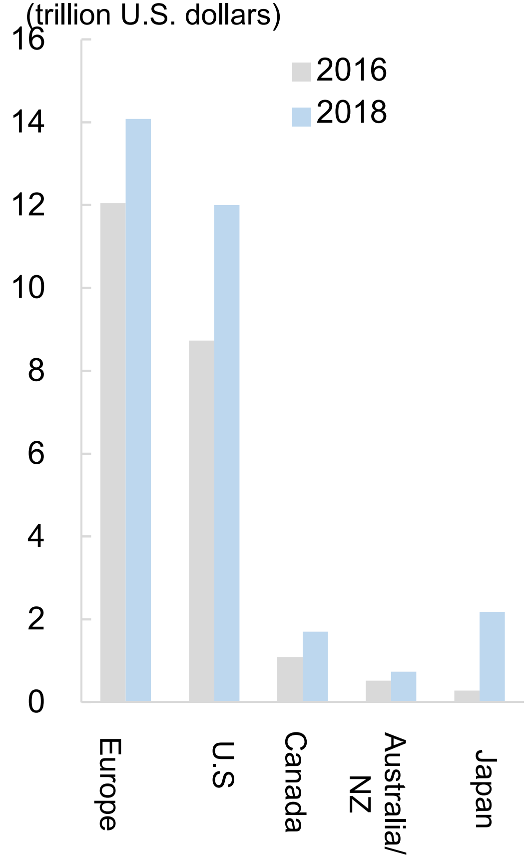
- According to the Global Sustainable Investment Alliance (GSIA), an international organization that compiles statistics on ESG investment worldwide, ESG investment is on the rise in every region.
- In Europe, the share of ESG investment in assets under management is around 50%. The percentage of ESG investment is also increasing in countries outside Europe.

Sustainable Society and ESG Investment

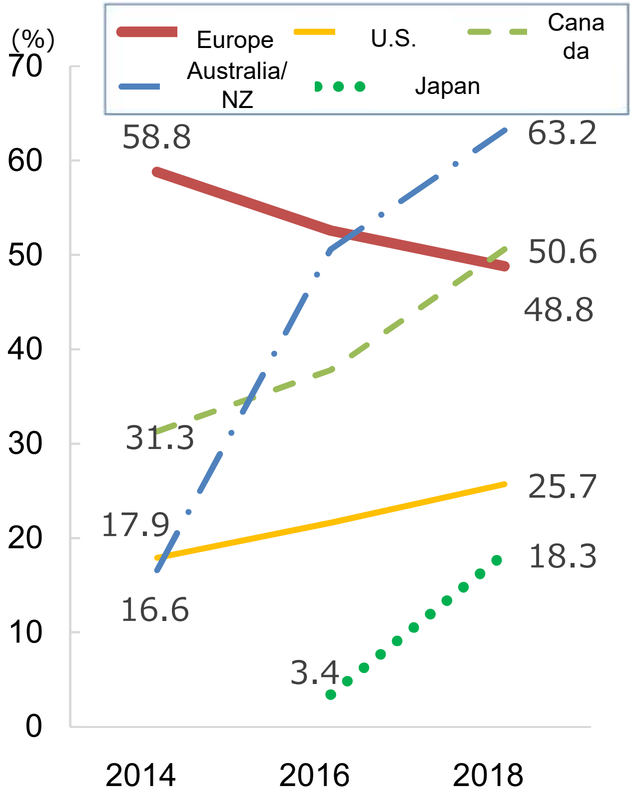


Source: Prepared by JFSA from Government Pension Investment Fund (GPIF)

ESG assets held by region



Ratio of ESG assets to total assets under management



(*) It is said that the reason for the decrease in the percentage in Europe is that the definition of ESG investment in Europe has been tightened.

Source: Global Sustainable Investment Alliance (GSIA),"GLOBAL SUSTAINABLE INVESTMENT REVIEW 2018"

(1) Increasing investors' interest

- **In January 2020, BlackRock**, the world's largest asset manager (approximately $7 trillion in assets under management), **announced that it would strengthen its ESG-centered management of portfolio companies and client investors.**
- In January 2021, the company announced that it will require portfolio companies to disclose their plans on how they will adapt their business models to become carbon neutral.

Key policies expressed in the 2020 letter	Key policies expressed in the 2021 letter
We will be increasingly disposed to vote against management and board directors when companies are not making sufficient progress on sustainability-related disclosures and the business practices and plans underlying them	We are asking companies to disclose a plan for how their business model will be compatible with a net zero economy
We are in the process of removing from our discretionary active investment portfolios the public securities (both debt and equity) of companies that generate more than 25% of their revenues from thermal coal production, and we aim to accomplish this by the middle of 2020	Implementing a "heightened-scrutiny model" in our active portfolios as a framework for managing holdings that pose significant climate risk (including flagging holdings for potential exit)
We are asking companies to publish SASB- and TCFD-aligned disclosures	TCFD should not just be adopted by public companies. They should be embraced by large private companies as well. Further, we believe that issuers of public debt also should be disclosing how they are addressing climate-related risks
We intend to double our offerings of ESG ETFs over the next few years (to 150)	Launching investment products with explicit temperature alignment goals, including products aligned to a net zero pathway
We will introduce new ETF and enable clients to screen companies and other entities for fossil fuels	Publishing a temperature alignment metric for our public equity and bond funds, where sufficient data is available; incorporating climate considerations into our capital markets assumptions

(1) Excerpts from Green Growth Strategy Through Achieving Carbon Neutrality in 2050 (Dec. 2020)

1. Green Growth Strategy Through Achieving Carbon Neutrality in 2050

(1) Relationship between Carbon Neutrality and Green Growth Strategies

In October 2020, the Japanese government announced the Carbon Neutrality in 2050. **Gone are the days when countermeasures to global warming are considered as a cost or constraint to the economic growth, the world has entered a new era to grasp them as a great opportunity for further prosperity. Changing from the conventional mindset, to take measures positively to tackle climate change heralds transformation in the industrial structure and social economy, and leads to the next strong growth**. The Green Growth Strategy is a set of industrial policies to create such a “virtuous cycle of economy and environment”.

It is easy to tell rhetoric such as “changing from the mindset” and “transformation”, but in reality, carbon neutrality will require an enormous effort. **In the industry, many companies will have to fundamentally change the business models and strategies they have been using**. While, **it’s also a chance for them to lead the new era**. The role of the government is to provide full support to private companies in conducting their forward-looking challenges, such as a bold investment to make innovation. (…)

3. Major Cross-cutting Policy Tools

(3) Financing

Positive disclosure of information by companies is a common base for attracting finance into their initiatives toward decarbonization. Japan has the largest number of institutions that support the Task Force on Climate-related Financial Disclosures (TCFD) and its recommendations in the world, and leads the utilization and development of TCFD by, for example, hosting the TCFD Summit since 2019. As for obligation of disclosure, considering that Japan already obligates reporting under the Act on Promotion of Global Warming Countermeasures, **the government will clarify the application of disclosure aligned with TCFD in the future**.

The amount of ESG-related private funds is 3,000 trillion yen in global total, and approximately 300 trillion yen in Japan alone. The amount in Japan has increased six times in three years. The government will take in such ESG funds toward carbon neutrality, including approximately 30 trillion yen set forth by the three megabanks as an environment finance target. (…)

(1) Japan-U.S. Summit Telephone Talk (January 28, 2021)

- On January 28, Mr. SUGA Yoshihide, Prime Minister of Japan, held a summit telephone talk with the Honorable Joseph R. Biden, Jr., President of the United States of America.
- The two leaders affirmed that Japan and the U.S. would continue their collaboration on the shared challenges such as **climate changes.**

Japan-U.S. Summit Telephone Talk (Excerpt from MOFA's Website)

1. At the outset, Prime Minister Suga offered his congratulations to President Biden on his inauguration and the start of his administration, to which President Biden expressed his gratitude.

2. The two leaders agreed to work closely together in order to further strengthen the Japan-U.S. Alliance. President Biden also expressed his unwavering commitment to the defense of Japan, including the application of Article 5 of the Japan-U.S. Security Treaty to the Senkaku Islands, and reaffirmed the U.S. commitment to provide extended deterrence to Japan.

3. The two leaders shared the view on the importance of strengthening the U.S. presence in the Indo-Pacific region. They also affirmed that they would work side-by-side to address regional challenges and to realize a Free and Open Indo-Pacific.

4. President Biden voiced his high regard for Japan's contribution to the U.S.-Japan-Australia-India relationship, and agreed that it would be further promoted going forward.

5. The two leaders agreed that Japan and the U.S. would work closely together to achieve the denuclearization of North Korea in accordance with the U.N. Security Council resolutions. Prime Minister Suga also asked for understanding and cooperation toward the early resolution of the abductions issue, to which President Biden offered his support.

6. Prime Minister Suga welcomed the U.S. decision to rejoin to the Paris Agreement, the reversal of its notice of withdrawal from the WHO, and the announcement of join COVAX Facility. Furthermore, **the two leaders affirmed that Japan and the U.S. would continue their collaboration on the shared challenges that the international community faces**, such as **climate change**, measures to combat COVID-19, and innovation. **President Biden also extended an invitation to Prime Minister Suga to attend the Leaders' Climate Summit**.

7. The two leaders agreed to coordinate on an appropriate time for a visit by Prime Minister Suga to the U.S., aiming for an early date while taking into account the COVID-19 situation.

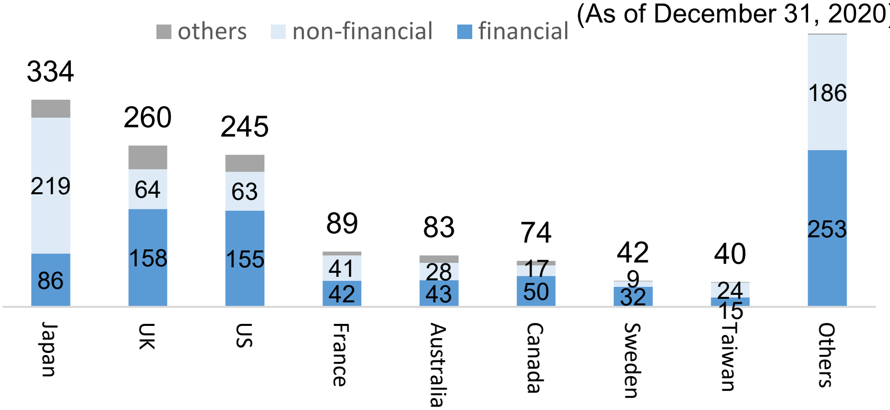
(2) Sustainability-related disclosure

(2) Disclosure of non-financial information by Japanese companies

- Japanese companies have been proactive in the disclosure of non-financial information, including disclosure in integrated reports.

Number of organizations that support the TCFD (*1) recommendations

(As of December 31, 2020)

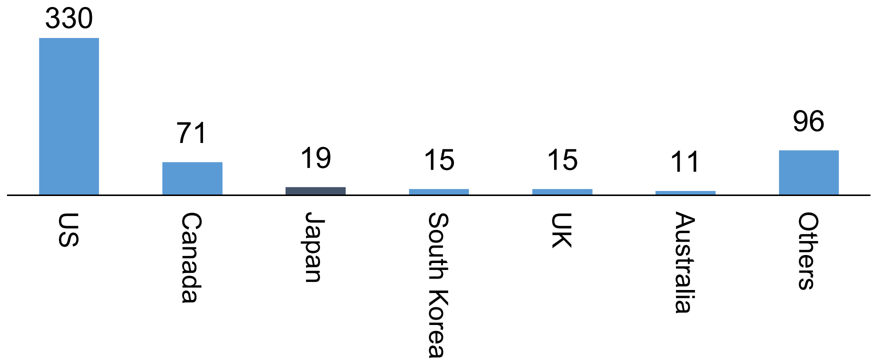


(*1) The Task Force on Climate-related Financial Disclosures (TCFD) was set up in 2015 at the request of the G20.

Source: Prepared by JFSA from TCFD

Number of disclosures based on the standards published by SASB (*2)

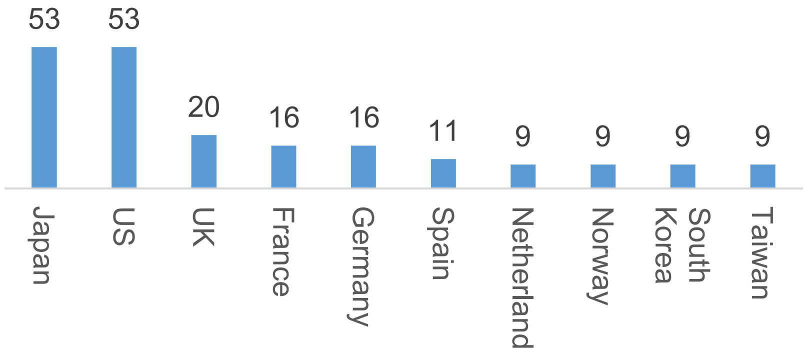
(As of February 4, 2021)



(**) The Sustainability Accounting Standards Board (SASB) is a nonprofit organization that sets financial reporting standards.
Source: Prepared by JFSA from SASB

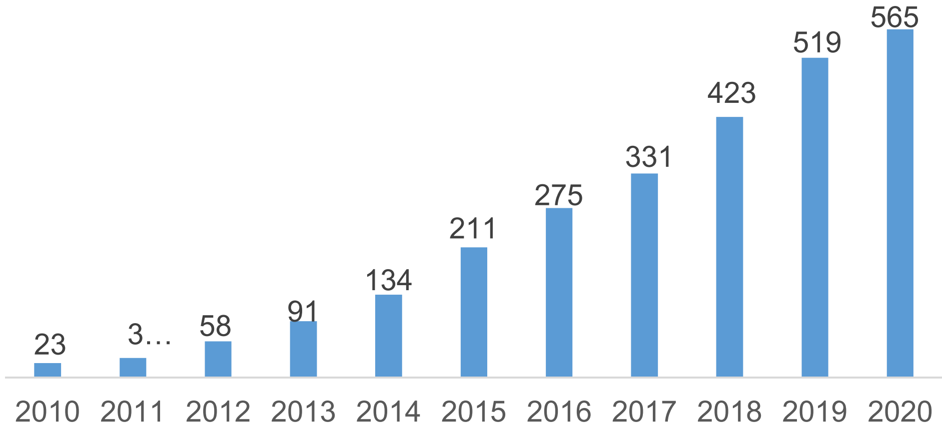
CDP(*3)'s Ratings

Number of companies with an A rating for climate change (Top 10)



(*3) CDP is a UK-based NGO that sends out questionnaires to companies and scores them on their efforts to address climate change.
Source: Prepared by JFSA from CDP

Number of organizations in Japan engaged in the publication of Self-Declared Integrated Reports



Source: Prepared by JFSA from Corporate Value Reporting Lab, "List of Organizations in Japan Engaged in the Publication of Self-Declared Integrated Reports (2020)"

(2) International Framework for the Disclosure of Non-Financial Information

☐ Internationally, various organizations have developed and published ESG disclosure frameworks.

	TCFD Recommendation	SASB Standards	GRI Standards	International <IR> Framework
Organization	TCFD	SASB	GRI	IIRC
	A private-sector-led task force established under the Financial Stability Board (FSB).	A private NPO in the US	An NGO in the Netherlands	A private NPO in the UK
Overview	A framework for reporting the impact of climate-related risks and opportunities on corporate finances to investors and others.	A framework for reporting the impact of sustainability (ESG, etc.) issues on corporate finances to investors and other stakeholders.	A framework for reporting the economic, environmental, and social impacts of companies to multi-stakeholders, including investors.	A framework for integrated reporting of corporate financial information and non-financial information, including sustainability, to investors.
Approach	Principles-Based	Rules-Based	Rules-Based	Principles-Based
Report Contents	・Governance ・Strategy ・Risk Management ・Metrics and Targets	Disclosure items and KPIs are set for 11 sectors and 77 industries. (Example) ・Greenhouse gas emissions ・Percentage of accidents resulting in work-related injuries	Set disclosure items and KPIs for economic, environmental, and social aspects. (Example) ・Water quality and discharge destination of wastewater ・Ratio of male to female employees in terms of base salary and total compensation	・Organizational overview and external environment ・Governance ・Business model ・Risks and Opportunities ・Strategy and resource allocation ・Performance ・Outlook etc.
Publication	2017	2018	2000	2013

(Note) On November 25, 2020, SASB and IIRC announced their intention to merge by mid-2021.

Source: Prepared by JFSA from each organization's websites, etc.

(2) TCFD Consortium

- In December 2015, at the request of the G20, the Financial Stability Board (FSB) established the Task Force on Climate-related Financial Disclosures (TCFD).
- In June 2017, the TCFD released its final report (TCFD Recommendations) with recommendations to encourage **voluntary disclosure** by companies.
- The Financial Services Agency (FSA), the Ministry of Economy (MOE), and the Ministry of the Economy, Trade and Industry (METI) support **financial institutions and business corporations that are voluntarily trying to work on disclosure in line with the TCFD recommendations**.
- In May 2019, **the TCFD Consortium** was established at the call of Keidanren and other organizations to engage in interactive discussions between investors and companies on questions and desirable contents for disclosure in line with the TCFD. The FSA, the METI, and the MOE will provide administrative support and participate as observers.

The TCFD Recommendation

The following four items are recommended as core elements for disclosure of climate-related financial information in order to disclose to investors and others the risks and opportunities posed by climate change to corporate finances.

Governance	The organization's governance around climate-related risks and opportunities
Strategy	The actual and potential impacts of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning
Risk Management	The processes used by the organization to identify, assess, and manage climate-related risks
Metrics and Targets	The metrics and targets used to assess and manage relevant climate-related risks and opportunities

Overview of TCFD Consortium

Through a series of dialogues between the financial and non-financial sectors, the Consortium aims to further discussion on effective and efficient corporate disclosure of climate-related information and their use by financial institutions.

"TCFD Consortium," through dialogue between industry and the financial community, has developed the following guidance.

- (For Business Firms) **"TCFD Guidance 2.0"** (July 2020)
- (For Investors) **"Green Investment Guidance"** (October 2019)
  - On October 8, 2019, the TCFD Summit was held as a forum for business companies and financial institutions from around the world to communicate and share the above initiatives.
  - The 2020 TCFD Summit was held on October 9.

Source: Prepared by JFSA from METI, "TCFD Guidance 2.0" (July 2020), TCFD consortium

(2) Enhancement of sustainability-related disclosure (climate change risks overseas)

☐ There has been a growing trend to develop legislation for disclosure based on the TCFD recommendations, particularly in Europe.

EU	• In June 2019 the EU Commission published guidelines to improve how firms report climate-related information based on the TCFD recommendation. • In February 2020, the EU Commission held a consultation on the direction of amendments to the Non-Financial Reporting Directive (NFRD(*)). Based on **the response that TCFD should be incorporated into the NFRD (71%)** and other responses, a draft revision is scheduled to be released in March 2021. **In January, Christine Lagarde, President of the ECB advocated for mandatory disclosures of climate-related risks from a far greater number of companies, including non-listed entities.**
UK	• In November 2020, HM Treasury set out in the Government's Roadmap towards mandatory climate-related disclosures, published in November. Rishi Sunak, Chancellor of the Exchequer, said **the UK would make TCFD aligned disclosures fully mandatory across the economy by 2025, going beyond the 'comply or explain' approach**. • **From January 2021, companies listed on the Premium Market of the London Stock Exchange will be required to disclose information using the Comply or Explain approach, in line with TCFD recommendations**. After that, the relevant authorities will continue to hold consultations to expand the scope of application and strengthen disclosure methods. • **As the host country of COP26, the UK is urging countries to show the way to make climate change disclosure mandatory**.
USA	• In 2019, Democratic lawmakers introduced a bill to require listed companies to disclose climate-related information. • The Biden administration has pledged to require listed companies to disclose their climate risks and greenhouse gas emissions. The presidential decree he signed in January also mentions his commitment to disclosure.
France	• The Energy Transition Act, Article 173 (August 2015) has already legislated for climate-related disclosure. **The government is considering aligning the Act with TCFD recommendations**.
Germany	• In March 2020, The Sustainable Finance Committee, which advises the government on the development and implementation of its Sustainable Finance Strategy, published the Interim Report. The Committee recommended that **all listed companies in Germany be required to disclose information based on the TCFD recommendations from 2022**.
Australia	• In March 2019, the revision of ASX (Australian Securities Exchange) Corporate Governance Principles and Recommendations was released. **Companies are encouraged to improve climate and other non-financial risk disclosure by focusing on material environmental and social risks, including by reference to the TCFD recommendation**. • In August 2019, the Australian Securities and Investments Commission (ASIC) revised its guidelines on climate change-related disclosures, recommending voluntary disclosures in line with the TCFD recommendations.

(*) The NFRD is aimed at large public-interest entities that issue stocks or bonds in the EU (Established in 2014).
Source: Prepared by JFSA from Government websites, etc.

(2) Summary of the IFRS Foundation's Consultation Paper (Sustainability Reporting)

□ On September 30, 2020, the IFRS Foundation, the setter of International Financial Reporting Standards (IFRS), released a consultation paper to establish a new standard board to develop international reporting standards on sustainability.

1. Background

- **There are many sustainability reporting standards for companies, and the content and scope of the standards are diverse**. Under these circumstances, there are growing calls internationally for the realization of consolidated reporting standards from companies that use the standards, investors that use information reported based on the standards, and other parties concerned.
- The following are some of the comments from stakeholders.
  - For investors, there **is a lack of comparable information as companies report based on different standards**.
  - **It is inefficient for companies** to report based on different standards
- In response to these issues**, there are growing expectations** that the **IFRS Foundation, with its track record of developing International Financial Reporting Standards (IFRS) and its global network**, will be able to realize global sustainability reporting standards.

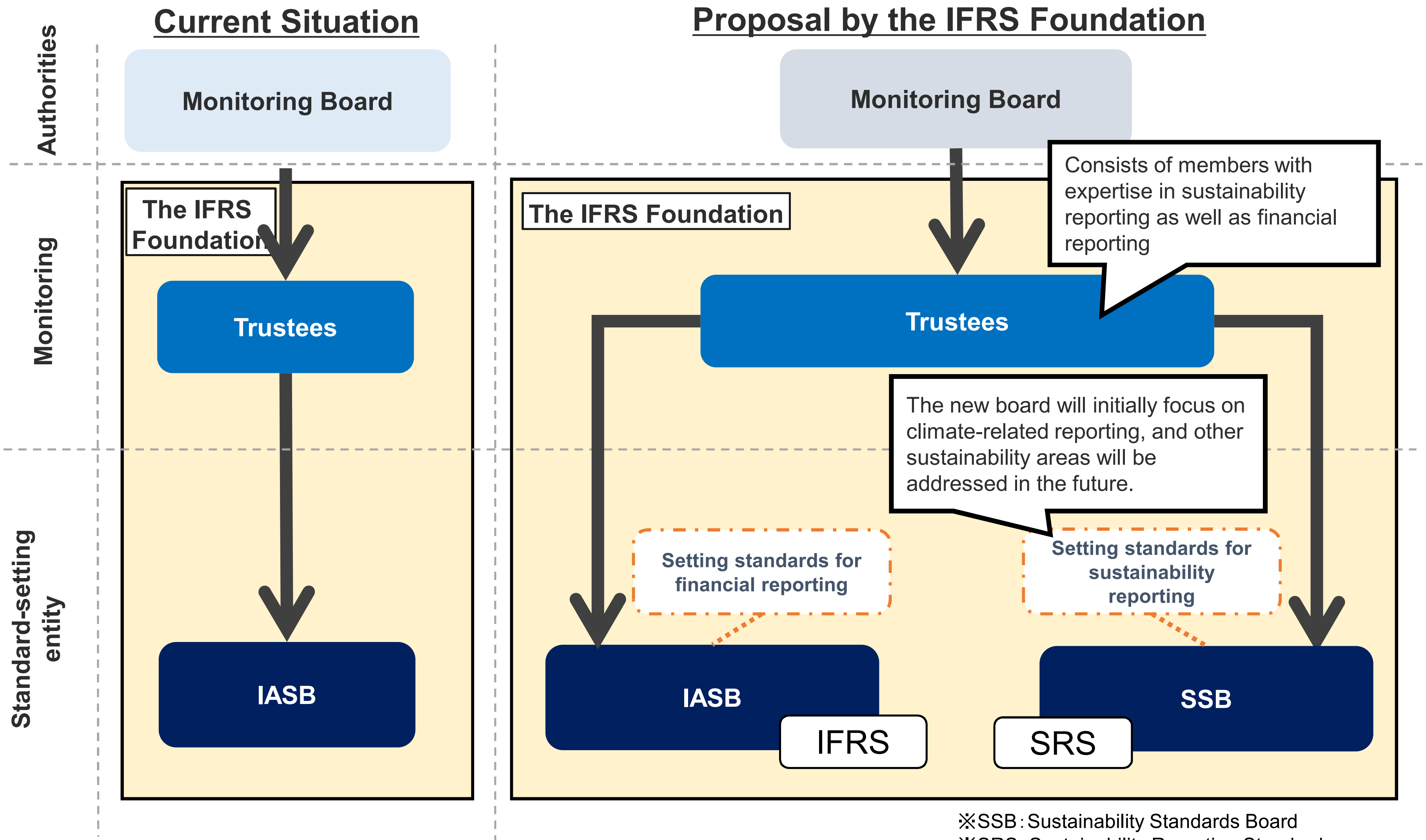
2. Overview of the IFRS Foundation's Consultation Paper

- The following are suggested as ways to address consolidate standards for corporate sustainability.
  - Create a new Sustainability Standards Board (SSB) **under the governance structure of the IFRS Foundation** to develop global sustainability standards.
  - Create a SSB and become a standard-setter **working with existing initiatives** and building upon their work.
  - Develop and maintain a global set of sustainability-reporting standards **initially focused on climate-related risks**. At a later stage, the SSB might adopt a broader scope of sustainability reporting.
  - The SSB will take an approach that **provides useful sustainability information to investors** and other market participants.

3. Schedule

- The consultation period ended on December 31, 2020.

(2) The IFRS Foundation's vision of establishing a new standard-setter for sustainability reporting



※SSB : Sustainability Standards Board
※SRS: Sustainability Reporting Standards

Source: The FRS Foundation "Consultation Paper on Sustainability Reporting (Published on Sep 30th, 2020)

(2) Japan's main arguments in the comment letter to the IFRS Foundation

- **On Nov 27, 2020, The IFRS Council of Japan(*) submitted a comment letter on the IFRS Foundation Consultation Paper on Sustainability Reporting.**

  *Members: Keidanren, Japanese Institute of Certified Public Accountants, Japan Exchange Group/ Tokyo Stock Exchange, Inc., Securities Analysts Association of Japan, Accounting Standards Board of Japan, Financial Accounting Standards Foundation, Financial Services Agency, Ministry of Economy, Trade and Industry, and Ministry of Justice)

- In submitting the comment letter, seven organizations(*) participated in the discussion as observers and the Council collected their opinions.

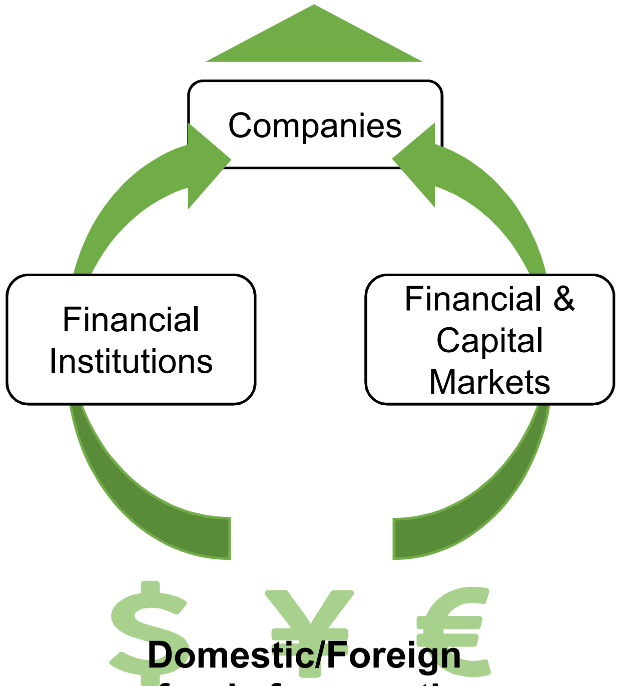
  *Government Pension Investment Fund, Japanese Bankers Association, Japan Securities Dealers Association, Life Insurance Association of Japan, General Insurance Association of Japan, Japan Investment Advisers Association, and Ministry of the Environment

Establishment of a new standard-setting board	□ We **welcome and support the proposal to establish a new standard-setting board for sustainability reporting**, under the presumption that the IFRS Foundation will maintain its role and responsibility of improving capital market transparency and efficiency through high-quality standard-setting.
Audience for reporting and the scope of materiality	□ **The primary audience** for sustainability reporting should be **capital market participants, with investors at the center**. □ Furthermore, **the scope of materiality should be based on the impact on corporate finance**.
Constitution of a new standard-setting board	□ **It is important for the Sustainability Standards Board (SSB) members to have diverse backgrounds**, including the regions they come from and the industries to which they belong. In particular, it is important to ensure an overall balance that includes not only those people who specialize in ESG areas but also the major participants in capital markets such as preparers and investors. □ Moreover, the IFRS Foundation should consider **the employment status of the SSB members so that it could be part-time**, from the perspective of ensuring diversity but reducing the financial burden..
Scope of information to be disclosed	□ **ESG factors other than climate change, especially S (society) and G (governance), should also be addressed** in parallel in the work of the new standard setters.
Funding	□ In the area of financial reporting, the IFRS Foundation should maintain its commitment to continue working toward the realization of “a single set of high-quality global standards” set forth in the G20 declaration. As such, the IFRS Foundation **should manage the funding for the IASB separately from the funding for the SSB** in order not to reduce resources related to the development of IFRS Standards.

(2) Establishment of the Expert Panel on Sustainable Finance

- In order to achieve carbon neutrality by 2050, creating a virtuous cycle between the economy and the environment is an agenda which should be worked on with a whole of government approach.
- Japanese companies have advanced technologies and the potential to contribute to a decarbonised society, but they have not fully leveraged them.
- To ensure more foreign and domestic investments addressed to the related efforts by Japanese companies, it is important that financial institutions as well as financial and capital markets fulfill their functions appropriately.

Investment in Facilities and Business Operations contributing to Decarbonisation



Domestic/Foreign funds for growth

- The FSA will establish **the Expert Panel on Sustainable Finance** comprised of the business, financial, and academic experts with observers from pertinent ministries and agencies.

Themes (provisional)

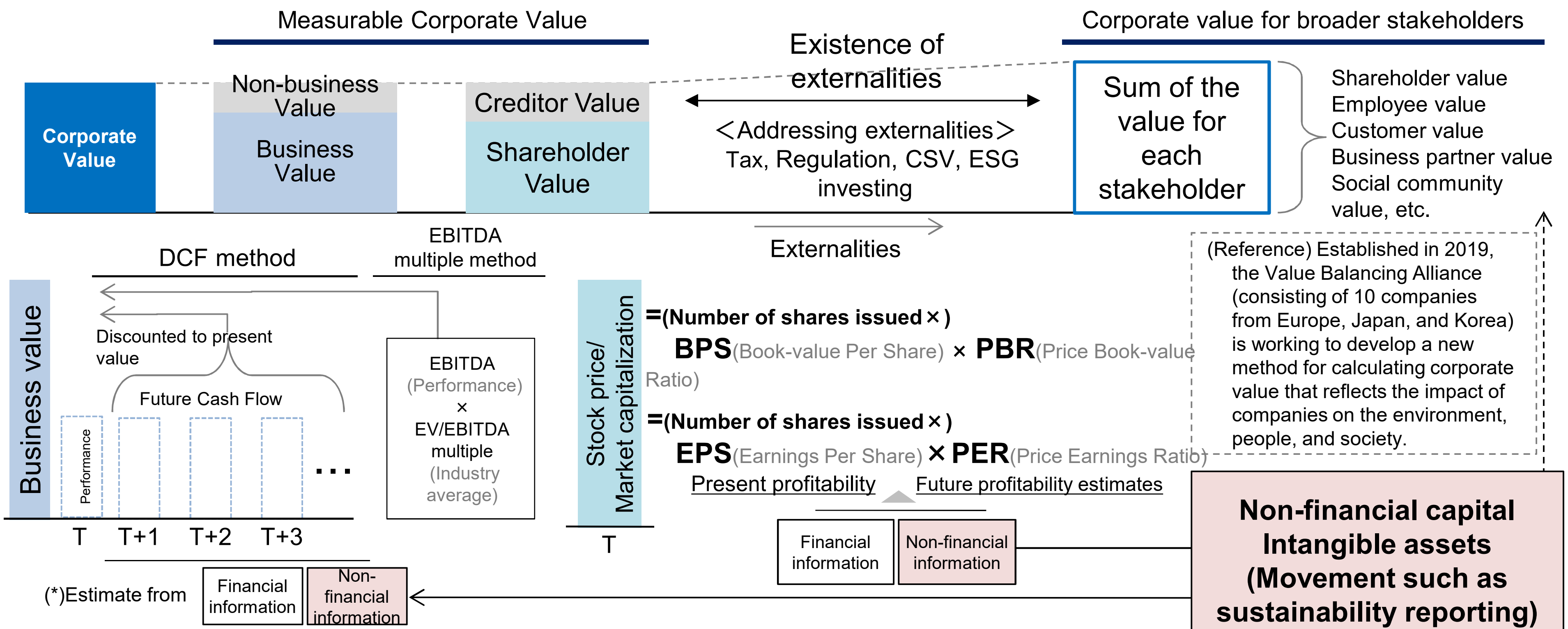
- **Driving Sustainable Finance by financial institutions**
  - support client companies through investment and financing so that they can use the potential and technological strength and promote the transition to a carbon neutral society
- **Providing investment opportunities for investors through financial and capital markets**
  - broadly provide investment opportunities and gains contributing to a carbon neutral society
- **Promoting disclosures of climate-related information by companies**
  - visualise initiatives for innovation within companies so that it leads to financing valuable technologies and projects

* Another meeting body is to be established under the Expert Panel to discuss the formulation of practical guidelines concerning social bonds.

(Reference) Corporate Value

(Reference) Concept of Corporate Value

- "Corporate value," includes "corporate value (for shareholders, etc.)," for which measurement methods have been established, and "corporate value that includes a wider range of stakeholders," for which measurement methods are still being explored, etc.
- The DCF method, EBITDA multiple method, and other methods exist for evaluating corporate value. Shareholder value (valuation) can also be calculated using EPS, BPS, PER, and PBR. It can be said that corporate value and shareholder value are defined by **current profitability** and **future profitability estimates** (including comparisons with the same industry).
  *As for shareholder value, there is a share price that can be measured in the market.
- There have been international discussions on how to value and disclose information on non-financial capital and intangible assets that are not included in balance sheets (including movements on sustainability reporting), which are expected to contribute to more accurate corporate valuation.



- Calculation of shareholder value using ROE: Calculated using ROE and cost of equity (residual income model)
  ※Equity spread (=ROE - cost of equity)
- Calculation of corporate value using ROIC: Calculated using ROIC and WACC

(Note) When calculating the value of a business using the DCF method, there are cases in which projections are based solely on financial information, and there are also cases in which non-financial information is considered in addition to financial information.

Subjects to be discussed at the 24th Council

- Sustainability (medium- to long-term sustainability including ESG factors) is becoming increasingly important for improving corporate value over the mid- to long-term, and Japanese companies are making progress in disclosing more information about sustainability.
- In addition to the traditional focus on E (environmental) aspects of sustainability, the importance of S (social) aspects of sustainability has also been recognized in recent years.
- Under these circumstances,
  - What factors related to sustainability should be considered in order to enhance corporate value over the mid- to long term?
  - What aspects of corporate sustainability disclosure are important from the perspective of deepening constructive dialogue with investors, and how can this be encouraged?
  - From the perspective of enhancing corporate value through sustainability initiatives, what are some of the key considerations for corporate governance systems, etc.?