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Thank you for the kind introduction. Good morning, everyone. It is a pleasure to come to Kyoto first in the morning from Tokyo by Shinkansen, Japan's world-famous bullet train. Even though the operation of this high-speed railway system requires a lot of electricity, I think the way I travelled this morning suits today's topic well because it is at least more sustainable than other means, such as gasoline vehicles and airplanes.

First of all, I would like to thank the Asian Development Bank, Kyoto University, and other co-organizers of this event for the opportunity to speak today.

It is also good to see colleagues from ASEAN economies here, and indeed on other various occasions. In fact, I saw Chairman Faiz as well as Mr. Paiboon's Secretary General as recently as mid-May, in Doha, Qatar, for the annual meeting of IOSCO, the standard-setting body for capital market regulation. I wish to extend a heartfelt welcome to both of them, as well as other participants from overseas, for visiting Kyoto, which was the capital of Japan for a millennium.

Today, I am expected to talk about how to align the efforts for sustainable finance in ASEAN+3. Since I am an official of the FSA Japan and therefore cannot represent the other "plus three" countries, I will provide an overview of the FSA's efforts on sustainable finance and introduce to you the Asia GX Consortium, which is the FSA's initiative for partnerships with the financial authorities of

ASEAN countries to advance climate transition finance in the region.

Need for climate transition finance in Asia

Whenever I participate in international meetings among financial regulators, I am impressed by the enthusiasm of my Asian colleagues about the issue of climate change. It is one of the main issues on which highly intensive discussions are held at IOSCO's Asia-Pacific Regional Committee meetings.

I see that such enthusiasm is born of necessity. Emerging markets and developing economies in general have been facing the challenge of advancing decarbonization while sustaining economic growth and coping with the increased energy demand associated with it. This challenge is arguably most acute in Southeast Asian economies because their geographic conditions are not necessarily amenable to existing renewable energy technologies. For such economies, a simple move to a green economy in the short term is not realistic. Rather, it is crucial for the financial sector to meet the demand for financing that is necessary for the climate transition of the entire economy.

Promoting climate transition finance is a major policy challenge for Japan, too, because my country shares geographic conditions that are unfavorable for the current renewable energy. Japan also has a manufacturing sector that is relatively large for an advanced economy. The FSA, therefore, sees room for close cooperation between Japan and ASEAN economies.

International discussions on climate-related work for the financial sector have become complicated recently, not just because of political developments in some major jurisdictions but also because the tension has become clearer between the need to address climate change on the one hand, and the need to keep our economic wellbeing and social stability on the other. Despite these developments, Japan's commitment to achieving carbon neutrality by 2050 remains unchanged. Japan will also stay engaged in international discussions on climate transition.

FSA's initiatives to promote sustainable finance—Overview

Let me now provide an overview of the FSA's initiatives to promote sustainable finance. These initiatives form part of the government's strategy for green transformation, which is called "GX" in Japan and involves several ministries and agencies.

To this end, the FSA invites experts to the Panel on Sustainable Finance and seeks their expertise to advance a variety of initiatives. The FSA's efforts consist of four main pillars.

The first pillar is the development of capital market functions, including through introducing a sustainability disclosure framework, setting out a code of conduct for ESG rating and data providers, and supporting the development of a database of sustainability information on the market.

The second pillar is the development of investment and financing frameworks. This includes a framework for the issuance and trading of green bonds, promotion of transition finance, and facilitation of collaboration between the public and private sectors on impact investment.

Third, the FSA issues guidance on climate-related risk management and client engagement by financial institutions and provides technical support to facilitate climate-related financing. In my view, some of the measures in this category reflect the fact that the FSA's mandate is broader than that of financial regulators in most other jurisdictions. Namely, the FSA's mandate goes beyond regulation and supervision from risk management perspectives, to facilitating financial intermediation to support the real economy. This leads to an emphasis on engagement with clients compared to divestment, and collaboration with business associations in support of non-financial companies.

Fourth, the FSA reaches out actively to a wide range of stakeholders, including investors in Japan and abroad, industry associations, and universities.

Now I will explain recent developments in the FSA's efforts on three fronts.

Disclosure and assurance of sustainability reporting

First is the disclosure of sustainability information. In March this year, the Sustainability Standards Board of Japan, SSBJ, finalized a set of sustainability reporting standards that can deliver functionally aligned outcomes with the ISSB standards. Following that, a working group of the FSA's advisory council on the financial system is currently deliberating a proposal for a roadmap for mandatory disclosure and assurance of sustainability-related financial information. According to the proposed roadmap:

- Companies listed on the Prime Market would be required to prepare annual reports in accordance with the SSBJ standards, in a phased manner according to the size of the company. Specifically, such disclosure would be mandatory for Prime Market-listed companies with a market cap of 3 trillion yen or more from the financial year ending on March 31, 2027; and

- As for assurance, limited assurance would be mandatory from the financial year following full disclosure. A transition to reasonable assurance would not be planned in view of the recent developments in the EU, such as the Omnibus package proposal. Assurance would cover scope 1 and scope 2 GHG emissions, governance, and risk-management information for the first two years. Expansion of the coverage from the third year would continue to be discussed, taking into account related practices and global developments.

Management of climate-related financial risks

Second, on the management of climate-related financial risks. In 2022, the FSA issued the Supervisory Guidance on Climate-related Risk Management and Client Engagement, setting out the viewpoints for supervisory discussions with financial institutions on developing a strategy and governance, identifying opportunities as well as risks, supporting responses to climate change by clients, and sharing information with stakeholders.

Building on this Guidance, the FSA's dedicated monitoring team on climate-related risks conducted a survey of 20 financial institutions on their practices and the issues they face in addressing climate-related risks. The FSA published a report on the results of the survey last month.

- The report concludes that firms are increasingly considering climate-related risks as a material risk in their business strategies, as well as setting out governance structures to address them; identifying transmission channels and conducting scenario analyses; striving to integrate these risks into their risk appetite frameworks; and providing solutions to clients.

- At the same time, significant challenges faced by firms include the quantification of climate-related financial risks and the integration of those risks into conventional risk management frameworks.

- Notably, another important issue facing financial firms is the treatment of financed emissions, since they would temporarily increase when firms provide financing to support the transition of their clients to net zero. Thus, even though such financing could contribute to reducing GHG emissions in the longer run, it could be discouraged due to disclosure requirements and short-term risk mitigation perspectives.

In fact, Japan was one of the first countries to point out this issue. A report by a joint task force of relevant ministries and agencies, including the FSA, raised this concern as early as 2023. And under the Japanese Presidency, the G7 Finance Ministers and Central Governors issued a statement in May that year, which indicated that they looked forward to the enhanced availability and credibility of information that would help promote investment aligned with an orderly net-zero transition by enabling a forward-looking assessment of the trajectory of financed emissions. GFANZ, the Glasgow Financial Alliance for Net Zero, is also asking financial authorities to clarify the treatment of financed emissions in their supervision and regulation. The FSA stands ready for further discussions on this issue from the standpoint of pursuing effective risk management and facilitating transition finance at the same time.

Asia GX Consortium

A third initiative worth mentioning is the Asia GX Consortium, which the FSA launched with ASEAN financial authorities in October last year.

As Asia accounts for approximately half of the world's GHG emissions and is expected to continue its economic growth, promoting investment for climate transition or green transformation in Asia is crucial to achieving decarbonization globally. We also believe that a scaling-up of climate transition finance in Asia would provide huge investment opportunities in the region.

The Consortium highlights the urgent task of mobilizing funds for entities that are “aligning” with the Paris Agreement goals. It also stresses the importance of blended finance to make transition finance projects economically feasible or “bankable.”

Under the Consortium, the FSA will take the lead with ASEAN financial authorities in developing a practical and common approach to scaling up climate transition finance in the Asian region, inviting financial institutions and other stakeholders to join case studies to identify sound practices and common challenges. On behalf of the FSA, I would like to thank ASEAN financial authorities for their support for the Consortium and close cooperation with us.

Conclusion

Let me conclude.

A conceptual discussion on a framework for climate finance is already well advanced, and progress has been made on introducing such a framework in jurisdictions, also taking into account their specific circumstances. Going forward, efforts in operational aspects will gain much importance. There are subtle differences between Japan and ASEAN in terms of their respective frameworks, such as whether they have adopted a sustainable finance taxonomy or not. In my view, however, there may be ample room for cooperation in promoting climate transition finance, since it needs not just a classification of “transition” but also a framework or methodology for assessing the credibility of transition finance projects or transition planning over a long period of time. By sharing experiences and practices, we would like to explore common, practical approaches to climate transition finance that are beneficial to both Japan and ASEAN economies.

Thank you.