2024 GFANZ Japan Chapter Statement

On March 12, 2024, in Tokyo, Japan, the leaders of Japanese net-zero committed financial institutions convened at the inaugural Japan Summit of the Japan Chapter of the Glasgow Financial Alliance for Net Zero (GFANZ). The purpose was to reaffirm our individual commitments to net-zero and to bring together stakeholders across the Japanese financial system to work together in accelerating efforts to support the transition of the economy. It is important that each of us play our respective part in averting the catastrophic effects of climate change and to support a net-zero transition that is inclusive and orderly[1] in the interests of current and future generations.

Financing needs to go where the emissions are to bring them down

Recognizing the important role finance plays in the decarbonization of the economy, I hereby commit on behalf of my institution to actively working, both independently and collaboratively, to scale the financing needed for a smooth transition to a net-zero future. As a supporting institution, we commit to working towards independently transitioning our own financing activities to achieve net-zero greenhouse gas (GHG) emissions by 2050 in line with science-based pathways that limit temperature rises to 1.5 degrees C.[2]

We recall the importance of transition finance and the breadth of different available strategies in financing the transition that were highlighted by the G7 during Japan's presidency. We support the recognition and use of the four key transition financing strategies[3] highlighted by GFANZ that address the need to finance (1) climate solutions and (2) entities already aligned to a 1.5 degrees C pathway, and emphasize the need to support (3) entities which are in the process of aligning with a science-based net-zero pathway, supported by transition planning, and (4) the managed phased-out of high-emitting physical assets. Given that nearly 80% of Japan's GHG emissions come from high-emitting sectors, we echo GFANZ's call to direct financing to, rather than divest from, these sectors, entities, and assets if this can be done in support of credible transition strategies.

Further, by participating in GFANZ's global, public consultation in the Fall of 2023, we are pleased to have played a role in emphasizing that transition finance should actively assist not only entities already aligned or aligning towards a 1.5 degrees C pathway, but also those

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[1] GFANZ uses the term "orderly transition" to refer to a net-zero transition in which both public policy changes and private sector action are early and ambitious, thereby limiting economic disruption related to the transition (e.g., mismatch between renewable energy supply and energy demand). This explanation applies to all mentions of the term "orderly transition" in this document.

[2] The use of "we" in this statement applies separately to each institution that unilaterally chooses to agree with the terms of this Statement.

[3] The concept was first introduced in GFANZ's report Recommendations and Guidance on Financial Institution Net-zero Transition Plans(November 2022) and further supplemented in the report Scaling Transition Finance and Real-economy Decarbonization (December 2023).

working to substantially reduce their GHG emissions in accordance with the goals of the Paris Agreement. This is particularly crucial in high emitting sectors where policy and technology advances are needed, small and medium-sized enterprises (SMEs), and in emerging markets and developing economies which may have longer pathways towards aligning to the 1.5 degrees C pathway.

We also cite the "Addressing the Challenges of Financed Emissions"[4] (October 2023) paper by the Japan Financial Services Agency and the "Discussion Paper on Developing Metrics for Transition Finance"[5] (December 2023) by the Net-Zero Banking Alliance as leadership demonstrated by the government and financial institutions in Japan. These initiatives contributed to advancing global discussions on complementary forward-looking metrics and targets in emission reduction contributions, to which GFANZ is also part of.

The Importance of Credible Net-Zero Transition Plans

In order to scale all of the above transition finance strategies and accelerate real economy decarbonization, we support the G7 Hiroshima Leaders' Communique from May 2023 that emphasizes the important role of credible corporate transition plans and of enhancing climate disclosures (including transition plans). This builds on the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD) which Japan played an instrumental role in supporting and which also recommended that transition plans be developed and disclosed. We encourage major corporations and financial institutions to voluntarily develop transition plans, utilizing the voluntary GFANZ framework which sets out key elements of transition plans that support credibility, comprehensiveness and comparability. As a Japanese financial institution, we are committed to independently engaging with our clients on their transition plans, to help ensure that finance will get to where it can bring the greatest decarbonization benefits.

We believe that the effectiveness of transition finance depends on the presence and implementation of credible transition plans. We are glad to have shared relevant experiences and contributed to the global discourse on this topic through GFANZ's report Scaling Transition Finance and Real-economy Decarbonization, Supplement to the 2022 Net-zero Transition Plans (December 2023). As a participant in the GFANZ Japan Chapter, part of our focus is on considering ways to address challenges related to the environmental integrity of high-emitting activities serving as an 'intermediary' or 'transitional' decarbonization options for entities in the process of reducing emissions as well as in considering ways to address regional differences including differing starting points and pathways toward net-zero. To tackle these challenges, we discussed identifying potential additional guardrails in transition plans for entities utilizing such "transitional" activities. One of these voluntary guardrails, for example, was for a retirement date to be specified within the entity's net-zero transition plan that details how the "transitional" activity supports the entity's alignment to the decarbonization pathways and when and how the "transitional" activity will be phased out (see the Appendix for more details).

[4] https://www.fsa.go.jp/en/news/2023/20231013.html

[5] https://www.unepfi.org/industries/banking/developing-metrics-for-transition-finance/

This work embodies the spirit of the GFANZ Japan Chapter as a way to "bring GFANZ to Japan and to bring Japan to GFANZ", that is, both reinforcing the global work and outputs of GFANZ among Japanese financial institutions and stakeholders ('GFANZ to Japan'), and bringing the expertise and experiences from Japan to the heart of GFANZ and the global net-zero community ('Japan to GFANZ') to help find solutions to the global net-zero challenge.

Participation in the global efforts to mobilize private capital in support of emerging markets and developing economies (EMDEs) transition

A just and orderly transition across emerging economies, including in the Asia Pacific region, requires mobilization of large amounts of transition finance. We recognize the importance of playing an active role in supporting this effort, especially in the Asia Pacific region, and as such are supporting work by GFANZ and its APAC network. This includes supporting the Just Energy Transition Partnerships (JETPs) in Indonesia and Vietnam, which are country-led partnerships to support energy transition planning, policy and project development, and encourage public-private cooperation. In particular, they seek to advance blended financing solutions that optimize the use of public finance to address energy transition challenges, while crowding in multiples of private finance. We recognize that the Japanese government and its development finance institutions are supporting both regional JETPs while a few participants in the Japan Chapter have also committed to playing their part in working to mobilize private finance for energy transition projects.

Many GFANZ Japan Chapter participants were also part of the development of the GFANZ's report on Financing the Managed Phaseout of Coal-Fired Power Plants in Asia Pacific (December 2023), which is helping to make the financing of such transactions possible globally. Some GFANZ Japan Chapter participants engage, together with GFANZ, in the Japanese government's Asia GX Consortium as they remain committed to initiatives designed to make such transactions a reality.

Message to policymakers

We support the Japanese government's commitment to achieve 'carbon neutrality by 2050' and appreciate its ongoing transition initiatives, such as the issuance of the Japan Climate Transition Bonds, the world's inaugural sovereign transition bond in February 2024, the Green Transformation (GX) Basic Policy (2022), Basic Guidelines on Climate Transition Finance (2021), and Technology Roadmaps for Transition Finance (2023). However, it is important to recognize that the global climate crisis is intensifying rapidly, and technological advancements are altering expectations for adequate responses to climate change. Despite its limited natural solar and wind energy resources, there is a growing expectation that Japan, as a G7 advanced economy, can further lead in accelerating the net-zero transition domestically as well as in the region and globally by scaling deployment of existing low carbon technologies to maximize carbon reductions by 2030.

Recognizing there may be multiple pathways to net-zero, we urge policymakers in Japan to collaborate with businesses and financial institutions to accelerate the development of robust sectoral plans and pathways for the country's high-emission sectors that could more specifically serve as the foundation for interim targets recognized by international investors. Given the interdependencies between sectoral transition pathways, government support, collaboration and leadership are essential to identify the appropriate pathways, and the key policy actions necessary to achieve them, as well as in communication of their state-level targets and measurement of progress. We highlight the significance of effective government policies and regulations in supporting the transition.

Sectoral pathways are not effective if they are not used by real economy entities and financial institutions to implement net-zero transition plans. We urge policymakers to also raise awareness and support the uptake and disclosure of transition plans that are credible, comparable and transparent. Further policies are needed to create incentives and overcome barriers for people and businesses, and for the financial sector to transition. Such forward-looking policies can play an instrumental role in reducing high-carbon energy demand; improving people’s quality of life; creating the jobs of the future; and creating significant business development opportunities. As a provider of finance, we confirm our strong interest in backing credible and impactful immediate decarbonization activities.

What next for the GFANZ Japan Chapter

Looking ahead to the new financial year starting April 2024, we as a leader of the GFANZ Japan Chapter, commit to further collaboration and engagement with various actors in the Japanese and international financial system and the real economy. We also renew our efforts to demonstrate leadership in financing the transition of high-emitting sectors, building on the success of our inaugural year since the Chapter’s launch in June 2023.

We are of the view that both public and private finance, including blended finance, can contribute much more to the decarbonization of the real economy. Moving forward, with the aim to unlock the potential of finance in addressing the climate crisis, as a GFANZ Japan Chapter participant we will deploy our own individual resources and collaborate with partners to improve understanding of the obstacles and consider available actions for their removal. For example, we will further enhance our engagements with GFANZ global workstream activities, and building on the aforementioned GFANZ work on Financing the Managed Phaseout of Coal-Fired Power Plants, explore whether and how managed phaseouts could play a role in Japan’s energy transition and how financial institutions can contribute.

Climate change is an existential threat to humanity. By being ambitious and taking concrete actions, we must make the net-zero transition into a growth opportunity for us to succeed. In this context, we believe that Japan is well-placed to lead by example and be a positive partner to countries in the region. We support scaling financing to accelerate decarbonization of the real economy, ensuring a fair and orderly transition. We call upon our esteemed policymakers and visionary business leaders to join us in seizing this monumental opportunity, both within Japan and on a global scale.

Supporters

Name of organization (In alphabetical order)
Asset Management One Co., Ltd.
Daiwa Asset Management Co.Ltd.
Japan Exchange Group, Inc.
Meiji Yasuda Life Insurance Company
Mitsubishi UFJ Financial Group, Inc.
Mitsubishi UFJ Trust and Banking Corporation
Mizuho Financial Group, Inc.
Nikko Asset Management
Nippon Life Insurance Company
Nissay Asset Management Corporation
Nomura Asset Management Co., Ltd.
SUMITOMO LIFE INSURANCE COMPANY
Sumitomo Mitsui Financial Group, Inc.
Sumitomo Mitsui Trust Asset Management Co., Ltd.
Sumitomo Mitsui Trust Holdings, Inc.
The Dai-ichi Life Insurance Company, Limited
The Norinchukin Bank

Appendix

Japanese financial institutions contributed to the GFANZ Secretariat Technical Review Note, "Scaling Transition Finance and Real-economy Decarbonization" (a supplement to the 2022 Net-zero Transition Plans report), by putting forward an approach to assess "transitional" activities within the context of net-zero transition plans of Aligning entities transitioning towards science-based net-zero pathways. See Box 4 on p.36 of the Review Note.

Box 4. Additional attributes for the use of "transitional" activities

"Transitional" activities refer to high-emitting activities that may serve as intermediary decarbonization options for an Aligning entity. These are activities that may replace a relatively higher-emitting activity, but that are themselves not considered viable or sustainable under a net-zero economy, that is, they should be transitory activities in the context of science-based net-zero pathways. For instance, the EU Taxonomy considers "transitional activities" as economic activities that result in substantial reductions in GHG emissions for which there are no technologically and economically feasible low-carbon alternatives (subject to specific conditions and requirements.)[112]

Because of economic, technological, and/or infrastructural dependencies, "transitional" activities are subject to "lock-in" risks. The assessment of "transitional" activities can become further complicated as different regions or jurisdictions may deem such activities as viable in the medium term or candidates for immediate phaseout based on specific regional considerations.

Financial institutions could consider a "transitional" activity as part of Transition Finance – Aligning strategy where *the following conditions are satisfied*:

I. No other no/low carbon alternatives exist;
II. The "transitional" activity demonstrates significant contribution to lifecycle GHG emissions reductions;
III. The "transitional" activity demonstrates the ability to enable the Aligning entity to align to a 1.5 degrees C pathway and/or meet its 2030 to 2035 interim targets; AND
IV. There is a retirement date specified within the Aligning entity's *established net-zero transition plan* that details *how* the "transitional" activity supports the entity's alignment to 1.5 degrees C pathways and *when and how* the "transitional" activity will be phased out.

Financial institutions should identify and consider disclosing exposures to "transitional" activities separate from other exposures under the four key transition financing strategies and provide transparency regarding their assumptions and rationale in support of their assessment.

For added rigor and credibility, financial institutions should consider:

- Establishing concrete timelines for recurring reassessment of "transitional" activity against the Attributes above
- Including planned capex specified for the deployment of succeeding no/low-carbon alternatives