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Strengthening the road to decarbonisation

An increasing number of governments and individual companies globally are announcing their ambitions to commit to a net zero world. And while it is very important for all stakeholders to state their ambition, it is even more important to understand how governments, corporations and other significant stakeholders are going to achieve these ambitions. These individual roads to decarbonisation are commonly referred to as the transitional pathways.

We will need a whole economy transition in which each stakeholder is playing an important part. Net zero will not be achieved in a niche. In order to understand what the overall transitional pathway will look like, we need to rely on consistent and comprehensive data. Not only will this data help to understand whether we are on track, it will also help financial institutions and central banks assess the risks related to this pathway, while at the same time seize opportunities to enhance and potentially even accelerate the transition.

Climate risk and resilience should become a core part of financial decision making and comprehensive disclosure will enable financial institutions to appropriately adjust their strategies and build risk management capabilities.

The first voluntary climate related disclosure standards suitable for a broad range of companies were published in by the Task Force for Climate Related Disclosures (TCFD) back in 2017. TCFD membership support has increased exponentially to approximately 1100 organisations representing USD 140 trillion in balance sheet. 285 of the total number of TCFD supporters are public and private Japanese organisations, bringing Japan to the top of the TCFD league table.

The TCFD standards have matured over time and companies have steadily increased their disclosures in each of the four key climate risk areas covering Governance, Strategy, Risk Management and Metrics. In the EU, we are expecting the TCFD standards to become mandatory standards through the revised non-financial disclosure regulation and other jurisdictions may follow.

The Japanese financial system, including our institution as the current chair of the Japanese Bankers Association, welcomes and has continuously supported a number of globally coordinated initiatives which have developed since the first voluntary guidelines were published in 2017 to further enhance sustainability related disclosures, such as the work of the Network for Greening the Financial System (NGFS), whose mandate is to enhance the

role of the financial system to manage risks and to mobilize capital for green and low-carbon investments, the work of UNEP-FI to develop methodologies for assessing physical and transition risks related to climate change, specifically focussing on carbon intensive sectors, and the recently established BCBS high-level Task Force on Climate-related Financial Risks (TCFR), which is tasked with the impact of climate change on global financial stability.

It is essential to ensure that the voluntary TCFD standards are indeed appropriate and complete, before adopting them into regional legal frameworks and using them to design policy, supervisory and regulatory standards. These climate related disclosures will only strengthen the role of the financial system in the world's path to net zero, if they are used in a consistent manner by both public and private organisations and that they remain globally aligned. ●