



## HIDEAKI TAKASE

President and Chief Executive Officer, MUFG Bank Ltd

### Taxonomies and the road to decarbonization

The financial sector is making an unprecedented shift to support the transition to a low carbon economy. Environmental and social considerations have been part of financial decision-making for some time now but as a result of geopolitical, societal and market developments, this shift has accelerated at a rapid speed. Net zero commitments from stakeholders across the public and private sector are becoming more concrete, painting a clearer picture of the shape and speed with which the energy transition will take place.

In October 2020, the new Prime Minister of Japan Mr Suga declared that by 2050, Japan will aim to reduce greenhouse gas emissions to net-zero and to realise a carbon-neutral society. This declaration is a defining moment for Japan's future energy and climate policies, and the government is developing additional policies to achieve this target. Japan wants to cut greenhouse gas emissions by 26% between 2013 and 2030. Other major economies are working towards similar ambitious targets.

These global emissions reduction commitments require a balancing act between energy security, economic efficiency, environmental protection and safety. We need a whole economy transition in which each stakeholder is playing an important part. In order to understand what the overall transition pathway will look like, we need to rely on consistent and comprehensive data and policy frameworks. Not only will these measure success, they will help financial institutions and central banks assess the risks related to the pathway, while at the same time seize opportunities to enhance and potentially even accelerate the transition.

Taxonomies are essential tools to help put in place a framework for ensuring we all speak the same language about the economic activities which are playing a role in the path to net zero. They assist in driving the economic shift necessary to reach the ambitious goals we set ourselves. We know from various studies that this will require significant investment in renewables, but equally important is the necessity of a significant transition from high-emitting sectors to more sustainable and energy efficient solutions. To reduce financial risk arising, the process of reducing GHG emissions over time needs to be managed in a steady and reliable manner.

Many banks are in the process of developing their own taxonomies with

the purpose of supporting clients and facilitating the conversation about transition paths. Multiple taxonomy frameworks complicate for banks active in multi jurisdictions. The market perception of the current EU Taxonomy is that it could give an increased focus on transition and avoid cliff-edges. In this perspective, we welcome the EU's views that taxonomies need to be dynamic and not a static framework, as well as take into consideration transition.

Financial transactions and decision-making, in particular for large banks, are global in nature. Whilst we appreciate the challenges a single, uniform global taxonomy would bring given regional transition paths, we encourage regional policy makers to bring their expertise on taxonomies together, with the aim to design common, globally consistent principles.