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Bank of Japan

## **The Bank of Japan's Strategy on Climate Change**

Climate change is a global challenge and could have a broad impact on our society and economic activity into the future. In order to address climate change, various entities in society and the economy need to actively play their roles, in tandem with governments and legislative bodies that formulate relevant policies. The Bank of Japan has been actively communicating with financial institutions and engaging in international discussions. In addition, the Bank has set up an internal network, the Climate Coordination Hub, to enhance bank-wide initiatives on climate change.

Recently, various stakeholders across jurisdictions, including governments and firms, have accelerated their efforts concerning climate change. The Bank, with an intention of furthering its efforts on climate change consistent with its mandate of achieving price stability and ensuring the stability of the financial system, decided the comprehensive strategy that consists of the following measures including those that have already been implemented.

### **(1) Monetary policy**

Climate change could exert an extremely large impact on developments in economic activity and prices as well as financial conditions from a medium- to long-term perspective. Supporting the private sector's efforts on climate change from a central bank standpoint will contribute to stabilizing the macroeconomy in the long run. In taking actions from the monetary policy side, the Bank deems it appropriate to give consideration to market neutrality, avoiding direct involvement in micro-level resource allocation as much as possible.

From these perspectives, the Bank decided to introduce a new fund-provisioning measure so that financial institutions that disclose a certain level of information on their efforts to address climate change can receive funds from the Bank against their investment or loans made as part of such efforts. It will launch the measure likely within 2021.

## (2) Financial system

Climate change, through the channels of "physical risk" and "transition risk," could significantly affect the businesses of financial institutions, and consequently the stability of the financial system. In addition, proper functioning of financial intermediation is vital for decarbonizing our society and the economy. The Bank will actively support financial institutions in identifying and managing their climate-related financial risks, with a view to maintaining the stability of the financial system and the smooth-functioning of financial intermediation. The areas of particular focus are as follows.

The Bank, through on-site examinations and off-site monitoring, will have in-depth discussions with financial institutions on their efforts in addressing climate-related financial risks as well as on their engagement with corporate customers in pursuit of decarbonization.

In doing so, quantitative assessment of climate-related financial risks is important. In this regard, there is a growing recognition among authorities and financial institutions that scenario analysis, which sets certain assumptions on the extent of climate change and its impact on the economy, is useful in measuring relevant risks. Taking account of the works by the Network of Central Banks and Supervisors for Greening the Financial System (NGFS) and other authorities, the Bank, in collaboration with the Financial Services Agency, is working on pilot exercises of scenario analysis targeting large financial institutions by using common scenarios.

The Bank will encourage financial institutions to enhance their disclosures, both qualitatively and quantitatively, based on the Task Force on Climate-related Financial Disclosures (TCFD) framework, which has been incorporated in the revised Japan's Corporate Governance Code.

## (3) Research

The Bank will deepen its analysis on how climate change would affect the macroeconomy including economic activity and prices, financial markets, and the financial system, and make efforts in collecting climate-related data and refining analytical tools in order to better conduct surveillance and identify risks. It will also examine the functioning of

financial markets and infrastructure, and consider ways to address issues relevant to payment systems and market infrastructures. The findings will be shared and discussed with the stakeholders at home and abroad.

(4) International finance

The Bank will make contributions in developing measures against climate change by learning from other jurisdictions' experiences at international forums, such as the Group of Seven (G7), the Group of Twenty (G20), and the Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), sharing the experiences gained through its measures, and taking part in multilateral discussions. On the financial system front, the Bank, in close collaboration with the Financial Services Agency, will contribute to building an international framework for addressing climate-related financial risks at such forums as the Basel Committee on Banking Supervision, the Financial Stability Board, and the NGFS. Regarding data gaps, the Bank will work with financial institutions and relevant authorities to contribute to international initiatives for improving the availability of data necessary for assessing climate-related financial risks.

As part of its international financial cooperation, the Bank, in cooperation with other central banks, will strengthen its efforts to promote investment in climate-related financial products, such as green bonds, with the aim of fostering the development of financial markets. The Bank has been making investment in the Asian Bond Fund launched by EMEAP for the purpose of supporting the development of local currency-denominated bond markets in Asia. Aimed at helping to catalyze further deepening of the local currency-denominated green bond market, it will consult with other EMEAP member central banks and stakeholders to expand the scope of investment in the Asian Bond Fund.

The Bank's foreign currency assets have been managed in accordance with the principles that call for a high degree of safety and liquidity. The amount outstanding of green bonds in the global market is on an increasing trend, and this trend is likely to continue. Given this situation, the Bank will purchase foreign currency-denominated green bonds issued by governments and other foreign institutions based on the existing management principles.

(5) The Bank's business operations and external communication

The Bank will undertake its business operations by paying due consideration to climate change, in accordance with its existing principle of proper and efficient central bank business operations. To date, the Bank has been making efforts on reduction in greenhouse gas emissions and energy saving in order to achieve the targets set by central and local governments, and strengthened its business continuity plan to cope with an increasing flood risk. The Bank will continue with such efforts.

As for external communication, the Bank will make disclosures, taking into account the TCFD recommendations, and enhance its communication with the public on climate-related conducts in general. The newly launched "climate change" page on the Bank's website will serve as a useful tool for the Bank's external communication.

The impacts of climate change on economic activity, prices, and the financial system are highly uncertain and could greatly vary over time. Accordingly, the Bank will appropriately follow the evolving nature of the climate-related issues, exchange dialogue with various domestic and foreign stakeholders including active participation in international discussions, and constantly review its measures and make adjustments where needed.