



## *In Conversation with*

*Mr. Satoshi Ikeda*

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### **1. When and why did your institution join the NGFS?**

The Japan FSA joined the Network for Greening the Financial System (NGFS) in June 2018, nearly half a year after the NGFS was established.

Given that climate change is a global challenge, internationally coordinated action is needed to address this issue. It was our belief then, and still is. Amidst growing public interest in Paris climate goals, being accelerated by the TCFD recommendations in June 2017, we were increasingly aware of urgent need to address climate-related financial risks in the financial system. In this regard, the NGFS came into being at the very right time and with the right purpose; to enhance the role of the financial system to manage risks and to mobilize capital for green and low-carbon investments in the broader context of environmentally sustainable development.

The participation in the NGFS has provided us with great opportunities to have constructive dialogue with peer financial supervisors regarding supervisory responses to climate-related financial risks and to leverage these international discussion in addressing domestic challenges.

We have to admit that the achievements by the NGFS have been even beyond our expectations. As of December 2020, more than 90 supervisors, central banks and observers have joined, and the NGFS plays a critical role in the international discussions on sustainable finance and climate-related financial risks. The Japan FSA has been an active member of the Plenary and various workstreams and, from November 2020, we serve as a member of Steering Committee<sup>1</sup> as well. We look forward to contributing to, and coordinating within, the NGFS further.

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<sup>1</sup> <https://www.ngfs.net/en/communique-de-presse/three-new-members-join-ngfs-steering-committee>

## 2. Can you share with us the key elements of the Japan FSA's climate strategy and how it fits into the broader national strategy in your jurisdiction?

The Japan FSA is of the view that the financial supervisor's ultimate mission is to protect national welfare by enabling sustainable growth of the economy through safeguarding critical functions of the financial system. Risks arising from climate change can potentially have a huge impact on the financial system and the economy, the Japan FSA has been trying to be vigilant to these risks and has published **its strategy for developing well-functioning financial markets to finance Sustainable Development Goals (SDGs)**<sup>2</sup>, believing that addressing environmental and societal negative externalities through promoting SDGs in finance will serve the Japan FSA's ultimate mandate. In this context, I was appointed **Chief Sustainable Finance Officer** in March 2019. On top of that, in **our annual policy strategy, Japan FSA priorities for July 2020-June 2021**<sup>3</sup>, the Japan FSA made clear a plan to further crystallize JFSA's strategy on Sustainable Finance.

Under these strategies, the Japan FSA has taken a variety of actions and most recently established the **Expert Panel on Sustainable Finance (EPSF)**<sup>4</sup>. The panel is tasked to advise us on the most desirable course of action for promoting sustainable finance in Japan, being comprised of experts in sustainability and practitioners in the financial sector and the business sector alike. As you may be aware, last October, the Prime Minister of Japan committed that Japan will become carbon neutral by 2050. Since then, the government is geared for planning transition to carbon neutrality. The critical element of it is how we can mobilize private capital to ensure smooth transition towards a decarbonized society. The recently announced "**Climate Innovation Finance Strategy 2020**"<sup>5</sup> well illustrates the important roles played by finance in greening, transitioning, and innovating the economy, i.e. finance for green, transition and innovation. Against this backdrop, the EPSF plans to publish a report detailing policy recommendations for the Japan FSA by early summer this year.

Even before the establishment of the panel, the Japan FSA have been actively encouraging constructive dialogue over ESG factors between institutional investors and investee companies through the responsibilities and requirements specified in the Japan's stewardship code and corporate governance code. It effectively led to the **establishment of the TCFD Consortium of Japan**<sup>6</sup> in May 2019, a platform to facilitate constructive dialogue between investors and companies around climate-related financial disclosures aligned with the TCFD framework. The Japan FSA, together with the Ministry of Economy, Trade and Industry and the Ministry of Environment, forcefully supported its foundation in order to facilitate their spontaneous efforts by the business sector and the financial sector to improve climate-related disclosures aligned with the recommendations of the TCFD. In the end, it has resulted in more than 300 Japanese enterprises supporting TCFD.

On the capital market front, the Japan FSA vigorously participates in the discussion on sustainable finance in the international field as well. I serve as a member of the Advisory Council of the Green Bond Principles and Social Bond Principles Executive Committee, International Capital Market Association (ICMA), as well as a co-chair of the Work Stream on ESG ratings and data providers under the IOSCO Sustainability Task Force. Last November, the Japan FSA joined the International Platform on Sustainable Finance (IPSF)<sup>7</sup> and acts as a co-chair of its newly established working group on disclosure together with the European Commission and the Swiss Ministry of Finance.

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<sup>2</sup> [https://www.fsa.go.jp/policy/sdgs/JFSAsStrategyforSDGs\\_ENG.pdf](https://www.fsa.go.jp/policy/sdgs/JFSAsStrategyforSDGs_ENG.pdf)

<sup>3</sup> <https://www.fsa.go.jp/en/news/2020/20200831/20200831.html>

<sup>4</sup> <https://www.fsa.go.jp/en/news/2020/20201225-2/20201225-2.html>

<sup>5</sup> [https://www.meti.go.jp/english/press/2020/0916\\_001.html](https://www.meti.go.jp/english/press/2020/0916_001.html)

<sup>6</sup> <https://tcfcd-consortium.jp/en>

<sup>7</sup> <https://www.fsa.go.jp/en/news/2020/20201120.html>

### **3. To which extent did the Japan FSA leverage the work of the NGFS in its own domestic journey? Any concrete examples?**

On the supervisory front, we have leveraged insights gained through NGFS to upgrade our supervisory policy for climate-related financial risks. For example, our annual policy strategy states that the Japan FSA is going to engage supervisory dialogue with financial institutions on climate risk management from the financial stability perspective. A salient part of such dialogue is focused on how to incorporate climate-related scenario analysis into the risk appetite framework (RAF) adopted by financial institutions. So the scenario analysis tool developed by the macrofinancial workstream of NGFS<sup>8</sup> constitutes a critical input to our supervision of financial institutions. This is why we have been deeply involved with discussions at the NGFS macrofinancial workstream. Of course, the Japan FSA actively participates in the other NGFS workstreams such as “microprudential/supervision”, “scaling up green finance”, and “bridging the data gaps”<sup>9</sup>.

In addition, the Japan FSA is an active member of various working groups dealing with climate risks outside NGFS such as the analytical group on vulnerabilities of the Financial Stability Board (FSB), the BCBS task force on climate-related financial risks, and the Sustainable Insurance Forum (SIF) in assessing climate risk. All these participations feed into our discussion in contemplating supervisory policy in view of climate change.

### **4. One last word?**

The year 2021 is a landmark year for sustainable finance. Both COP26 on climate change and COP15 on biodiversity loss will be a critical milestone for designing a sustainable path towards 2030 and beyond. Finance must take part in such initiatives. In this regard, the question is how finance can contribute to building a sustainable economic system. My answer is that the financial sector must start by properly assessing risks associated with climate change and biodiversity loss to individual entities and the financial system as a whole. In realizing this aspiration, financial supervisors around the globe will have an important role to play and the importance of NGFS will become even more huge. It is with this prospect in mind that I look forward to international coordination through NGFS and the Japan FSA is determined to add value to the activities of NGFS as a new member of its Steering Committee.

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<sup>8</sup> <https://www.ngfs.net/en/communique-de-presse/ngfs-publishes-first-set-climate-scenarios-forward-looking-climate-risks-assessment-alongside-user>

<sup>9</sup> <https://www.ngfs.net/en/about-us/governance/general-information>