

- Climate change is an urgent issue, and realizing the goals of the Paris Agreement is becoming increasingly important. To achieve this, it is necessary to finance companies that actively address environmental issues, and it is crucial that information which contributes to appropriate decision-making by investors and other stakeholders be disclosed from the companies.

- In Japan, companies and investors hand-in-hand established the TCFD Consortium in May 2019 as a private sector-led initiative to promote the disclosure of information based on TCFD recommendations, and enhance constructive dialogue (engagement) based on this disclosure. The private sector and the government have since been working together on implementing TCFD recommendations, with the participation of government agencies as observers.

Specifically, the Consortium has published the "Green Investment Guidance", which aims to enable investors and other stakeholders to effectively utilize the information disclosed based on TCFD recommendations, and established "GIG Supporters,"¹ to disseminate the guidance. In addition, in October 2019, the Consortium and WBCSD co-hosted the TCFD Summit which was organized by the Ministry of Economy, Trade and Industry (METI). The Consortium have further convened various working groups as well as roundtables which provide opportunities for dialogue between companies and investors. Through these activities, the Consortium has been contributing to the improvement of TCFD-aligned disclosures in Japan in terms of both quantity and quality.²

- Regulatory foundation regarding the disclosure of environment-related information in Japan has already been in place with the obligation to report on greenhouse gas emissions set out in the Act on Promotion of Global Warming Countermeasures, etc.³ In addition, the Corporate Governance Code revised in 2018, which requires "comply or explain" reporting on a principle basis, specifically spells out ESG elements within its concept of disclosure.

Based on this regulatory foundation, Japanese companies have been promoting disclosures based on TCFD recommendations with a voluntary and flexible approach. The recent revision of the TCFD Guidance (TCFD Guidance 2.0) is one such effort, with an aim to encourage voluntary TCFD-aligned disclosure more broadly and deeply.

¹ Investors and other financial institutions who support and utilize the "Green Investment Guidance" are registered as "GIG Supporters", and examples provided by these GIG Supporters on the use of the Guidance are posted on the TCFD Consortium website along with statements from the government, business and financial stakeholders.

Green Investment Guidance: https://tcf-consortium.jp/en/news_detail/19100802

GIG Supporters: https://tcf-consortium.jp/en/gig_supporters

² The number of organizations supporting TCFD in Japan is 290 (As of July 27, 2020) and 38 companies were rated A by the CDP in 2019, the most of any country worldwide (See page 3, TCFD Guidance 2.0).

³ As regulatory foundation for climate-related information, there are the Act on Promotion of Global Warming Countermeasures, the Act on the Rational Use of Energy and the Cabinet Office Ordinance on the Disclosure of Corporate Affairs, etc. have been implemented. (See page 15, TCFD Guidance 2.0).

- While various discussions on TCFD-aligned disclosure have been taking place internationally, some of the Consortium members have expressed concern that prescriptive approach to disclosure may lead to a mere “box-ticking” exercises and lack in substance, and that such a disclosure will no longer be decision-useful. The flexible disclosure of information that sheds light on the originality and ingenuity of companies needs to be ensured by utilizing initiatives such as this TCFD Guidance 2.0.

Though there are remaining issues related to the appropriate disclosure medium and style, it is also imperative to encourage companies to disclose forward-looking information including uncertainties, such as scenario analyses, in a framework that enables them to disclose such information in a proactive manner.

(Opinions from members of the TCFD Consortium)

- While clarification and specification of disclosure content have the effect of ensuring objectivity and verifiability, and may have a positive impact on reliability, we are concerned that this disclosure will just be for the sake of disclosing information and result in the minimal and formalistic disclosure.
- TCFD disclosure is in a growth stage; and detailed standardization under such circumstances may lead to box-ticking type disclosure and lower the quality and reliability of disclosure content, possibly harming investors.
- The degree of impact of the climate change varies by industry and depends on the circumstances of individual companies. Therefore, voluntary disclosure should be encouraged rather than requiring companies to provide mandatory and uniform disclosure.
- In some countries, the inclusion of forward-looking information, including uncertainties, in financial filings poses a litigation risk to companies, which can cause companies to hesitate with regards to pursuing its own initiatives and disclosure, making it difficult for this information to become a tool for dialogue with investors.
- (In Japan,) financially material information for investors is required to be disclosed in Annual Securities Reports and it would be decision-useful to effectively link them with other disclosure media (such as mentioning that TCFD based information is disclosed in other reports).

- As described above, the TCFD Consortium calls on policymakers and stakeholders in Japan and around the world to ensure a framework concerning TCFD-aligned disclosure in each country, in which companies can actively pursue disclosure while maintaining its voluntary nature and flexibility according to the circumstances of each company, leading to a more decision-useful TCFD-aligned disclosure.

The TCFD Consortium will contribute to promoting TCFD-aligned disclosures in companies both in Japan and abroad, by sharing its experience and knowledge worldwide acquired through promoting discussions and dialogue between companies and investors, and through collecting and sharing information on best practices.

(Opinions from members of the TCFD Consortium)

- The primary purpose of the TCFD when it was first established was to encourage companies to disclose information that are decision-useful to investors, and it is imperative to ensure it.
- If rigorous details are included in the TCFD framework without allowances being made according to the actual circumstances of a country or region, there may be more harm done than good, and the nature of the disclosure may deviate from the original intentions of disclosure based on TCFD recommendations.
- Given the diversity in each country, it is important that Japan considers an approach appropriate for itself. The content, extent, necessity, and effectiveness of mandatory disclosure vary from a country to a country, so such things should be left to the discretion of each country.