Overview of Green Investment Guidance 2.0 (1)

- **Disclosure based on the TCFD recommendations is progressing.** In order to facilitate green investment, **significant progress since the publication of the first edition** is reflected for investors and other stakeholders to understand the information disclosed. **The new "addendums" discuss topics that are considered to be important**.
- Expected to help companies better understand the perspectives of investors and other stakeholders, leading to further disclosure.

Basic Approach

Promote constructive dialogue (engagement) with companies, leading to enhanced corporate value.

Identify and assess the risks and opportunities posed by climate change.

Promote innovation for decarbonization, and to create mechanisms for appropriate flow of funds.

Aims to realize a **"virtuous cycle of environment and growth"**

Structure

Main Text	Provides commentary on evaluating and utilizing the information disclosed from four viewpoints. **Reflects significant progress since the publication of the first edition.**
Addendum New	**Discusses topics and initiatives considered to be important for investors and other stakeholders to understand the disclosure information. To be revised taking into account the latest situation.**

Main highlights of revision

Progress on social issues	Currently, achieving carbon neutrality is becoming a goal for many countries and companies. In order to achieve this goal, transition on a massive scale and significant technological progress (innovation) are required. Therefore, a growing importance is placed on engagement.
Progress on financial action	Efforts to reduce emissions from financial portfolios including indirect financing are gaining momentum. Therefore, it is becoming necessary to take measures to encourage borrowers to respond to climate change through long-term engagement.
Progress in corporate disclosure	Disclosure is progressing due to factors such as increase in disclosing companies due to revision of the Corporate Governance Code, as well as use of internal carbon pricing and increased emphasis on Scope 3 emissions. These necessitate investors and other stakeholders to consider such information taking into account materiality.

Overview of Green Investment Guidance 2.0 (2)

Main text

It is important for investors and other stakeholders to understand information disclosed based on TCFD according to the following perspectives.

1.Governance

- Consider a company's organizational structure in terms of governance to address climate change, and also whether it is actually functional and effective to that end.

✓ Identify the organizational structures and functions in addition to corporate boards, and whether oversight by the board is effective.
✓ Verify that board oversight of climate-related governance is being effectively implemented, or that the equivalent to board oversight is ensured through reports to the boards from the relevant committees.
✓ Management structures related to governance, their specific roles of each organizations and the management, as well as processes to reflect their deliberations in management.

Example of verification on governance through engagement by investors and other stakeholders

【Verification of effectiveness】 Investor B engages with different counterparts of a company depending on the topic of interest, seeking dialogue with the CEO to check the company's commitment to climate-related issues, but going to the director(s) responsible for specific implementation systems and their effectiveness. Through such engagement, the attitude of the whole company including management is changed, leading to the creation of an appropriate governance system, such as building climate-related organizational systems or bringing about discussions in board meetings.

2. Strategies and Business Models

- It is more important to check and assess the alignment between the decision-making processes that led to a company's strategies and the scenarios used as well as their appropriateness within the industry, than the accuracy of the data of the scenario or analytical results provided by the company.

✓ Context of the relevant scenarios selected and developed, any assumptions behind the scenarios, and alignment of a company's underlying future vision with its business model.
✓ The most crucial issue is whether the scenarios are being utilized appropriately to derive persuasive and reasonable results of analysis, or narratives, and whether the companies have taken the necessary measures aligned with the narratives, rather than which scenarios have been used.
✓ Disclosures may be limited, and not all of the scenarios that have been used by that company for decision-making in strategy development may be disclosed, and climate-related information inevitably includes uncertainty.
✓ In case of companies aiming for carbon neutrality, it is also important to increase understanding through encouraging the information disclosed related to transition.

- It is desirable to consider the use of internal carbon pricing (ICP) after understanding the assumptions and grounds for the numerical values.

✓ ICP provides an opportunity for investors and others to engage and deepen their understanding of the strategy and business model.

Example of verification on strategies and business models through engagement by investors and other stakeholders

【Scenario assessment】 Investor B is aware that scenarios should be understood as narratives based on multiple assumptions. What is important is not credibility of the results of analysis, but the responses to the expected futures, so in evaluation, it checks whether the companies have taken such measures.

Overview of Green Investment Guidance 2.0 (3)

Main text

3. Risks and Opportunities

- Have a balanced evaluation of a company's risks and opportunities, by understanding a company's efforts to address risks, while also actively evaluating the potential opportunities of climate actions.
- Recognize the importance of innovation, and to positively evaluate the relationship between innovation and the company's long-term strategies, as well as organizational systems to promote innovation.

✓ Alignment of a company's long-term strategies and underlying perceptions about the future business environment with the direction of its innovation efforts.

✓ Regarding the management systems of a company engaged in innovation, confirm commitment of its management organizational design, processes, and organizational culture

Example of verification on on risks and opportunities through engagement by investors and other stakeholders

【Facilitation of proactive disclosure of opportunities through engagement】 Investor C is engaging not only with manufacturers of final products but also with those providing technologies and components that support the final products, to discuss their future revenue opportunities and social innovation opportunities. It is of the view that enhanced corporate value will result if investors discover such opportunities and encourage their active disclosure.

4. Performance and Key Performance Indicators (KPIs)

- Understand a company's rationale for establishing the specific KPIs that it manages and discloses, and confirm its alignment with the company's strategies (Check not only the levels of KPIs but also their trend of improvement).
- Consider relevant industry characteristics upon comparative evaluation of KPIs.
- Evaluate companies by considering not only their GHG emissions through the entire value chain but also their contributions to emission reduction at the usage of their products and services.

✓ Evaluate in a comprehensive manner by considering emissions throughout the entire value chain (Scope 3 emissions), as well as contributions to reduction of products and services in the use phase.

✓ In order to use information on Scope 3 emissions on understanding risks and opportunities, basis and assumptions of calculation are important.

✓ Pay attention to intermediate products that would bring reduction contributions at a point of usage.

Example of verification on on Performance and Key Performance Indicators (KPIs) through engagement by investors and other stakeholders

【Confirmation of alignment of KPIs and strategies】 Investor A assesses climate-related KPIs set by companies from the perspective of both environmental and business advantages. In doing so, the Investor looks not only at increased revenues but also at what corporate value is created and what business benefits can be anticipated.

Overview of Green Investment Guidance 2.0 (4)

Addendums

Topics that are considered to be important for investors and other stakeholders to understand disclosed information but for which interpretation and viewpoints have not yet been determined are identified and discussed. These may be revised in response to future discussions and trends in related topics.

1. Paris Agreement and Carbon Neutrality New

- In recent years, many countries and companies have adopted "carbon neutral" targets, but the futures envisaged are diverse. Investors and other stakeholders should keep in mind that there are various pathways to carbon neutrality and should understand the background of the scenario used as a reference for disclosure by companies.

2. Transition Finance New

- Transition finance is an important means for achieving carbon neutrality, and actively evaluating companies that demonstrate appropriate transition plans will lead to decarbonization of their investment and loan portfolios in the future.

3. Initiatives for Investors and other Stakeholders on Climate Change New

- Initiatives to decarbonize portfolios of various investors and other stakeholders, including asset owners, asset managers, banks, and insurance companies are being launched. Under these circumstances, investors and other stakeholders are expected to engage in activities that include facilitating the transition of their investees and borrowers towards carbon neutrality.

4. Evaluation of Participation in External Climate Initiatives

- An increasing number of companies are taking part in external climate initiatives. However, it is recommended that evaluations be made taking into account specific efforts rather than apparent characteristics such as participation or non-participation.

5. Carbon Pricing New

- Various forms of carbon pricing are considered by the government, with an intention to introduce without hesitation those that contribute to materializing its growth strategies. Therefore, it is necessary to pay close attention not only to the trends of discussions related to carbon pricing, but also to the development of relevant rules and guidelines.

6. Climate Change Risk Management for Investors and Other Stakeholders, and the Role of NGFS New

- NGFS, a network of central banks and financial supervisors, maintains the view that climate change risks pose financial risks, and recommends incorporating climate change risks into financial supervision monitoring. Through these trends, it is expected that private sector financial institutions will be required to enhance addressing climate change risks and promote green investment.