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GIAJ Comments on the FSB Interim Report "Supervisory and Regulatory Approaches to Climate-related Risks"

The General Insurance Association of Japan (GIAJ) appreciates the opportunity to comment on "Supervisory and Regulatory Approaches to Climate-related Risks: Interim Report".

Question 1

- We understand the purpose of the report, which proposes data and indicators needed to assist regulators and supervisors in taking consistent approaches across sectors and regions regarding monitoring, managing and mitigating risks arising from climate change.
- On the other hand, compared to traditional risks, climate-related risks are relatively new and responses to them are still under development. Therefore, there are challenges such as a lack of sufficient, accumulated data, variations in quantity and quality of data across sectors and regions, etc. In developing standardized regulatory reporting frameworks for collecting climate-related data, flexibility should be ensured and the materiality principle should be fully taken into account.
- Regarding the areas which contribute to the identification of exposures and the understanding of the impact of climate-related risks (indicated in Section 2.1.4), we have the following comments:
 - > 4 indicates strengthening financial institutions' reporting (and their counterparties' reporting) regarding Scope 1, Scope 2, and Scope 3 GHG emissions. However, for the measurement of investment-associated Scope 3 emissions, for example, there are asset classes for which measurement methodologies are still under development. In addition, many companies do not fully disclose their GHG emissions. We call for flexibility to be ensured in accordance with these circumstances. Furthermore, the ways in which the collected data will be used for regulatory and supervisory purposes need to be clarified.
 - > While 6 indicates strengthening the quality of climate-related risks and forward-looking data on financial institutions' significant counterparties, these are not completely controllable by insurers.
- The examples described under "Qualitative" and "Quantitative" of Table 1 are mixed in terms of type and importance, and do not adequately highlight the most important climate-related data items. For example, we suggest revising them as follows:

<Qualitative>

- Out of the five "Risk management" examples, the fourth (Risk reduction...), which is related to the second (Risk identification...), should be the third. As the third (Whether ESG ratings...) and the fifth (Details on methodologies...) are clearly more detailed and technical than the other three "Risk management" examples, they should be separately described (for example, under "Further technical information", or something similar).
- The "Strategy" type should be divided into "Strategy", "Scenario analysis & Stress testing", and "Disclosure". In addition, the third example (Measures to reduce...) should be deleted. As planning and implementation of strategies and appropriate disclosure will lead to a reduction in reputational risks, it is not meaningful to separately collect information on this item.

<Quantitative>

- The "Financial metrics" type should be sub-categorised as "Exposures", "Impact on B/S and P/L", and "Forward-looking metrics", to clarify its focus. In addition, the seventh example (Risk mitigants...) can be read as qualitative information at first glance, so if it is quantitative, it should be revised to "Quantitative effect of risk mitigants...", etc.

<System-wide and cross-border information>

- In line with the process of ensuring facts, identifying systemic risks through scenario analysis, and taking mitigating measures, the order of the four examples should be adjusted as follows: 1. Systemic risks..., 2. Cross-border information..., 3. Outcomes of scenario analysis..., and 4. Climate risk mitigation channels... In addition, to clarify that the items in the first example are not necessarily systemic risks but could be, the description should be revised to "Possible systemic risks", etc.

Question 2

- The report mainly recommends two approaches to strengthening the reliability of climate-related data reported by financial institutions: (i) supervisory oversight on financial institutions' governance, processes and controls on climate-related data reported, along with reviews by financial institutions' internal audit function, and (ii) the use of third-party verification mechanisms.
- While we understand that a review by the internal audit function may improve data reliability, the role of each function within a company, including the internal audit function, varies, and flexibility should be ensured.
- Regarding the use of a third-party verification mechanism, first of all, issues regarding credentialing and governance of verification bodies and verifiers should be fully examined. Then, the introduction of the mechanism should be carefully considered, including its pros and cons, clarifying the scope of the data to be verified and the purpose of the verification, and giving due consideration to the effectiveness of such verification. For example, a third-party verification mechanism could work if the third party guarantees the eligibility of financial instruments with the aim of preventing greenwashing. On the other hand, when verifying GHG emissions data, for example, there are issues such as accuracy and suitability of the data, differences in approaches depending on the objective of the verification, a lack of established measurement methodologies (still under development), and variations among companies in terms of the state of their GHG emissions disclosures.

- In addition, if a third-party verification mechanism is to be introduced, it is necessary to carefully consider operations that do not inhibit the development of scenario analysis, etc. as well as independent analysis by each financial institution (bottom-up approaches on p.34).

- Section 2.4 (on the usefulness of developing consistent and comparable climate-related firm disclosures, based on a global baseline climate reporting standard) indicates that the disclosure standard currently being developed by the ISSB will play an important role in improving consistency and comparability.

We expect the ISSB standard to be developed as a suitable standard to be referenced as a global baseline of climate disclosures. We agree that the ISSB standard as a globally consistent disclosure standard should be referenced and data reporting standards developed in alignment with it, as this would improve comparability across regions and sectors and potentially reduce the data reporting burden on financial institutions.

Question 4

- Please refer to our answers to Question 1 and Question 2.

- While Recommendation 4 suggests that authorities should begin with collecting qualitative information and improve the quality of data in the future by gradually adding quantitative information, the data to be collected should be examined based on availability, and the purpose of the collection and the use of the data should be clarified.

Question 5

- Section 3.2 (p.25) lists four elements of the existing prudential frameworks: the first (microprudential), the second (microprudential and macroprudential, including scenario analysis, etc.), the third (deployment of supervisory capital add-ons, etc.), and the fourth (macroprudential).

- The third element, which illustrates concrete examples of the first element, is different in quality and too detailed compared with the other elements. Therefore, we suggest deleting it.

Question 6

- As noted in Section 4.3, we agree that, while progress has been made in climate scenario analysis and stress testing, including the NGFS global climate scenarios, authorities and financial institutions are still at the early stages of the design and use of the relevant methodologies.