

Basic Guidelines on Climate Transition Finance

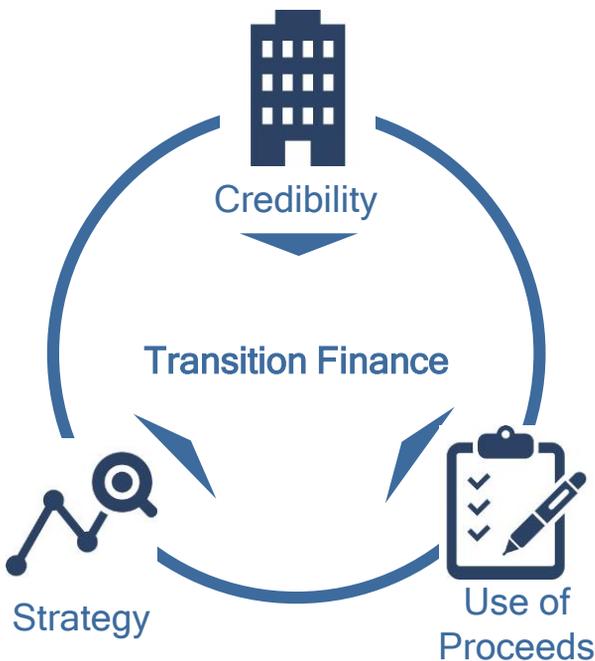
May 2021



The Importance of Transition Finance

In addition to further promoting “green” investment in areas such as renewable energy, it is important to promote financing initiatives that contribute to the transition toward decarbonization, such as initiatives toward low carbonization in sectors where emissions are difficult to reduce, to achieve the Paris Agreement’s goals and Carbon Neutrality by 2050.

These Guidelines are developed as a general guide to enable companies to raise funds in bonds and loans labeled as transition for investments in initiatives towards decarbonation and low carbonization. Also, these Guidelines can serve as reference for the fundraiser, the financier and other market participants when they consider concrete actions while taking into account the consistency with the ICMA Climate Transition Finance Handbook, which incorporates the international consensus in the financial market.



Comprehensive Judgement Based on Strategies

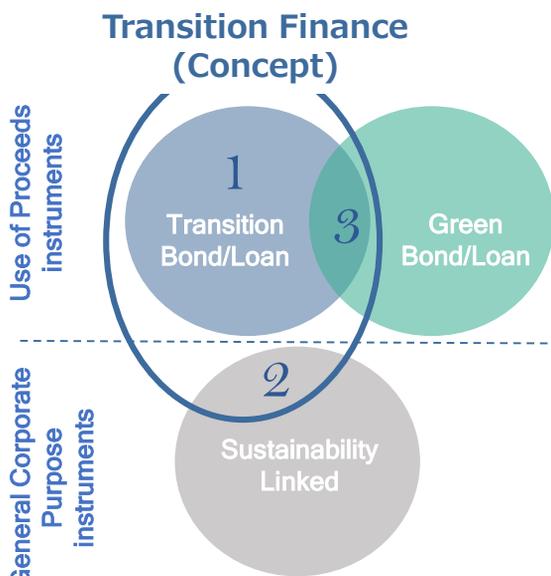
Transition Finance refers to financing that promotes long-term, strategic GHG emissions reduction initiatives taken by a company towards tackling climate change challenges for the achievement of a decarbonized society.

In particular, Japan, with the aim to achieve carbon neutrality by 2050, defines transition finance as a finance for supporting fundraisers who have set their target consistent with the Paris Agreement and satisfied the elements set forth in these Guidelines.

Transition finance is determined not only by Use of Proceeds of the funds raised, but also by the credibility of the strategies and practices of the fundraiser.

Definition of Transition Finance

Transition finance is a finance, despite its wide range of use, for entities who explicitly develop their strategies to achieve long-term goals aligned with the Paris Agreement and ensures more ambitious initiatives. Thus, much like Green Bonds, it is crucial to achieving a decarbonized society.



Transition finance must meet the four elements of these Guidelines, as well as other elements such as the issuance process, defined in the existing principles and guidelines*.

1

An Instrument where Use of Proceeds does not fall under Green Projects* but meets the four elements of transition

2

General Corporate purpose instrument that meets the four elements of transition, sets targets in line with the transition strategy, and changes the terms and conditions of financing depending on the achievement of predefined objects

3

An instrument where Use of Proceeds falls under Green Projects* and meets the four elements of transition

*contents of Green Bond Principles/Guidelines, Social Bond Principles/Guidelines (including those to be issued in future)

Key Points for Each Element

Element 1 | Fundraiser's Climate Transition Strategy and Governance

Goals of transition finance

- Implementing transition strategies that incorporate targets aligned with the goals of the Paris Agreement and the intention to transform the business towards decarbonization
- Incorporation of environmental and social contributions other than climate change into the transition strategy (a "just transition")

Transition strategy and governance disclosures

- Disclosures can be aligned with frameworks such as the TCFD recommendations

Element 3 | Climate Transition Strategy to be Science-based Including Targets and Pathways

Science-based targets and pathways

- Science-based targets are reduction targets required for achieving the goals of the Paris Agreement (covering Scopes 1 through 3)
- Short- to mid-term targets should be set on the pathway toward the long-term targets
- Since targets are set in consideration of various factors, including regional and sectoral characteristics, it is possible that the pathway may not necessarily be linear

References and benchmarks

- Scenarios recognized in the international community: SDS outlined by the IEA
- Consideration by internationally recognized NGOs: SBTi and the like
- Nationally Determined Contributions of countries aligned with the goals of the Paris Agreement, roadmaps by industry sector, and so on

Element 2 | Business Model Environmental Materiality

Initiatives covered by the transition strategy

- Core business activities that are environmentally material today and, in the future (including business activities of fundraisers who have indicated that climate change is an environmentally material part of business activities)

Element 4 | Implementation Transparency

Targets of investment plan

- The investment plan includes not only capital expenditure (Capex) but also operational expenditure (Opex)
- Costs related to research and development, M&A, and dismantling and removal of facilities are also subject to the investment plan

Results and impact of implementing the investment plan

- Use quantitative indicators where possible
- If quantification is difficult, the use of external certification systems can be considered as a substitute for qualitative assessment
- Incorporate considerations of a "just transition"