

Overview of TCFD Guidance for the Real Estate Sector

March 2021

ESG-TCFD Practitioner Working Group for the Real Estate Sector
Real Estate Market Division, Real Estate and Construction Economy Bureau
Ministry of Land, Infrastructure, Transport and Tourism

Characteristics of TCFD Guidance

- Prepared in March 2021 in response to the **TCFD Recommendations** published in June 2017.
- Given the progress of ESG investment¹, this is the reference material (guidance) related to **disclosure of information in response to TCFD Recommendations**, which also take into account **the specific realities of our country's real estate sector**.²

*1 ESG investment

- The Principles for Responsible Investment (PRI *) were launched in April 2006 with the support of the United Nations, and investors are increasingly demanding that investment destinations give consideration to ESG (environment, society and governance).
- The PRI requires investors to focus on the long-term perspective and take ESG information into account when conducting business analysis and valuation.
- In some countries, particularly in Europe, there has been a move to propose and consider mandatory disclosure of climate-related information in line with the TCFD Recommendations.

*PRI: The PRI is a voluntary investment principle formulated by investors with the support of the United Nations (UNEPFI (United Nations Environment Programme Finance Initiative), UNGC (United Nations Global Compact)) and the cooperation of experts, etc., and is prepared after consideration by a working group consisting of undersigned investors, groups, and practitioners of the C2 real estate business and investment management.

*2 Reviewed and prepared by a working group consisting of practitioners in the real estate business and investment management.

- Based on supplementary documents for information disclosure in line with the TCFD Recommendations issued by domestic administrative agencies, etc. this is the first time that we have **focused on and supported the real estate sector**.

(Examples of Supplementary Documents)

- Ministry of the Environment " Practical guide for Scenario Analysis in line with the TCFD recommendations 3rd edition "
- TCFD Consortium "Guidance on Climate-related Financial Disclosures 2.0 (TCFD Guidance 2.0)"*

*The TCFD Consortium takes over the Ministry of Economy, Trade and Industry Guidance on Climate-related Financial Disclosure (TCFD Guidance) (December 2018)

- The guidance specializes in the real estate sector, covering the background of the TCFD Recommendations, outline of the system, **and other prerequisite information. It also shows the importance of the recommendations**, richly incorporating overseas cases and examples of scenario analysis, and **explains to enable understanding of the vision of implementation**.

Subject: Real estate companies looking to comply with the TCFD Recommendations (Regardless of the size of the company, from companies that are about to start to companies that have already implemented some measures) and investors/financial institutions analyzing TCFD disclosures in the real estate sector

Aim: Understand the fundamental impact of climate change and recognize the need for action. We will create a process that will allow us to take a step toward information disclosure in response to TCFD Recommendations

TCFD Recommendations

- In December 2015, the Financial Stability Board¹ announced the launch of **the Task Force on Climate-related Financial Disclosures. (TCFD²)** .
- In June 2017, the **TCFD Recommendations** were published with the aim of identifying and disclosing the financial impacts of "risks" and "opportunities" brought about by climate change.

*1 Financial Stability Board: An organization that promotes coordination among authorities responsible for financial system stability. Participants include central banks, financial supervisory authorities, Ministry of Finance, IMF, and World Bank representatives from 25 major countries and regions.

*2 TCFD: Comprised of members selected by the Financial Stability Board, including major banks, insurance companies, asset management companies, pension funds, major non-financial companies, accounting and consulting firms, and credit rating agencies from around the world.



Encouraging companies to disclose items related to climate change risks and opportunities



Recommendations of the Task Force on Climate-related Financial Disclosures Final Report published in June 2017

TCFD Recommendations and Supporting Recommended Disclosures

Governance

Disclose the company's governance around climate-related risks and opportunities.

Strategy

Disclose the actual and potential impacts of climate-related risks and opportunities on the company's businesses, strategy, and financial planning where such information is material.

Risk management

Disclose how the company identifies, assesses, and manages climate-related risks.

Metrics and Targets

Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.

Example of Transition Risks and Financial Impact

■ Policy and Legal Risks

- Increased pricing of GHG emissions etc.

■ Technology Risks

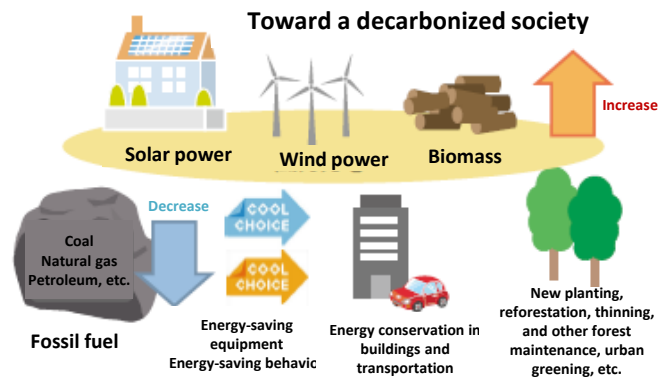
- Impact of new technology development on existing technology (obsolescence)

■ Market Risks

- Changing customer behavior, increased cost of raw materials

■ Reputation Risks

- Deterioration of reputation among consumers and industries



Source: Ministry of the Environment "Tell me! Global warming"

Examples of Physical Risks and Financial Impact

■ Extreme weather events such as storms, floods

■ Change in precipitation patterns and extreme variability in weather patterns



- Reduced revenue from decreased production capacity (e.g., transport difficulties, supply chain interruptions)
- Reduced revenue and higher costs from negative impacts on workforce
- Damage to real estate, etc. in "high risk" locations
- Reduced revenues from lower sales/output (Heavy snowfall / lack of snow, suspension of business due to high temperature, decrease in customers, etc.)



Flood damage caused by Typhoon No. 19 in 2019
(Chikuma River in the Shinano-gawa River system (Nagano City, Nagano Prefecture))

Source: Data distributed by the 1st Subcommittee on Water Disaster Countermeasures in light of Climate Change in November 2019 6

In real estate sector, it is also important to consider physical risks as disaster countermeasures.

Examples of Climate-Related Opportunities and Potential Financial Impacts

Example of Transition Opportunities and Financial Impact

- Resource Efficiency
 - Reduced operating costs
 - Increase in asset value of buildings with high energy efficiency etc.
- Energy Sources
 - Reduced operational costs
 - Policy incentives and support for the use of new technologies etc.
- Products and Services
 - Increased revenue through demand for lower emissions products and services
 - Diversification of business activities
 - Shift in consumer preferences etc.
- Markets
 - Increased revenues through access to new and emerging markets
 - Use of public sector incentives
 - Increased diversification of financial assets etc.
- Resilience
 - Participation in renewable energy programs and adoption of energy efficiency measures
 - Substitution and diversification of resources

Example of Physical Opportunities and Financial Impact

- Products and Services
 - Diversification of business activities
 - Shift in consumer preferences etc.
- Resilience
 - Increased market valuation through resilience planning (e.g., infrastructure, land, buildings)
 - Increased reliability of supply chains and ability to operate under various conditions
 - Increased revenue through new products and services related to ensuring resiliency

The guidance sets multiple scenarios for future climate change, evaluates the impact of risks on the business under each scenario, reflects the results in management strategy and risk management, and identifies and discloses the financial impact.

Purpose of the structure		Table of Contents	
Entrance	It should start with a <u>basic understanding of the impact of climate change</u> , so that even those who are not familiar with climate change can understand why it is necessary to respond to climate change.	Introduction	Positioning of this guidance
			Why is it important to address climate change?
			Why is climate change important in real estate?
			International and domestic climate change trends
Support for the implementation	After understanding the impact of climate change, <u>grasp the activities of international organizations and investment markets overseas and in Japan</u> , and develop an awareness of what should be done now. <u>A step-by-step guide explaining the specific measures to be taken</u> is provided so that the first step for an action can actually be taken.	TCFD Recommendations	What are the TCFD Recommendations?
			What is the response to the TCFD?
			Examples of disclosure based on TCFD
Reference materials for implementation	As a response to climate change, the methodology for complying with the TCFD Recommendations is explained, and finally, reference materials necessary for information disclosure are attached.	References	How to promote information disclosure based on TCFD
			Introduction of a set of data and scenarios to be used as a reference for TCFD disclosures in the real estate sector
			Introduction of references for TCFD disclosures in the real estate field
			Certification system

Explanation of the concept of scenario analysis for climate change in the real estate sector

Examples of disclosure based on TCFD

How to promote information disclosure based on TCFD

Recommended Approach to Scenario Analysis by TCFD (this content and procedure is explained in the guidance)

Examine and prove the resilience of corporate management, including business impact and response measures, to multiple possible future scenarios.

1 Improvement of governance

- Form a review team led by the corporate department. On top of that, involve the business units from the initial stage.
- The management team will be involved in the promotion system, overseeing the study and incorporating the results into management strategy.

2 Identification of significant risks and opportunities



- Identify the company's business model, value chain, etc., and identify significant risks and opportunities.
- Organize the identified significant risks and opportunities in a systematic manner.

3 Identification of the scenario

Commonly referenced external scenarios
(e.g., 1.5°C, 2°C, 4°C scenarios, etc.)

- Identify scenarios for future climate change.
- Consider in detail the changes in society and the impact on your company under each scenario.

4 Business Impact Assessment

Calculate the impact with and without countermeasures:

- | | |
|----------------|--------------------|
| -Input cost | -Supply Chain |
| -Business cost | -Business shutdown |
| -Revenue | -Timing |

- Visualize the financial impact (risks and opportunities) of each scenario on your business as quantitatively as possible.
- Calculate and consolidate the financial impact of measures taken and not taken by the company.

5 Description of the response

Examples of responses

Transition risk: Setting energy efficiency standards and targets for the introduction of renewable energy in company properties, etc.
Physical risk: Preparation of a BCP manual in the event of a disaster, understanding the natural disaster risk of the company's real estate using hazard maps, etc.

- Explain the resilience of the company's management.
- Explain the company's existing countermeasures, analysis to date, and consideration of countermeasures based on the assumption of an uncertain future.

6 Documentation and disclosure

Disclose in common corporate disclosure media such as integrated reports, annual reports, and sustainability reports.

Overview

Objective: To study how overseas real estate funds and Japanese forerunners are disclosing information from the perspective of ESG. To formulate reference materials (guidance) on information disclosure for TCFD, taking into account the unique circumstances of the Japanese real estate sector.

Committee members: Practitioners in the real estate field with real experience disclosing information and investment management practitioners who utilize the disclosed information.

Committee Members (titles omitted)

● Financial Sector

IGUCHI Joji	Nissay Asset Management Co., Ltd., Chief Corporate Governance Officer/General Manager
KATO Masahiro	Mitsubishi UFJ Trust and Banking Corporation, Responsible Investment Promotion Office, Asset Management Division Head of Responsible Investment
SUZUKI Tatsushi	Mitsubishi UFJ Trust and Banking Corporation, Real Estate Management Division, Investment Products Development Department Senior Product Manager
KIKUCHI Satoru	Sumitomo Mitsui Trust Research Institute Co., Ltd., Private Investment Management Department Senior Researcher
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SHIMOMICHI Mamoru	Nomura Real Estate Asset Management Co., Ltd., Head of Investment Planning/Executive Director
SHOJI Ai	Mitsubishi Corp. - UBS Realty Inc., ESG Promotion Office General Manager
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NAKANISHI Tsukihiko	(General Incorporated Association) Real Estate Sustainability & Energy-Efficiency Diffusion, Executive Director

● Real Estate Sector

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MATSUMOTO Megumi	Nomura Real Estate Holdings, Inc., Corporate Communications Department, Sustainability Promotion Group General Manager
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TANAKA Kazunobu	(General Incorporated Association) Japan Building Owners and Managers Association, Deputy Secretary General

● Observers

Environment and Economy Division, Minister's Secretariat, Ministry of the Environment
 Environmental Policy Division, Policy Bureau, Ministry of Land, Infrastructure, Transport and Tourism
 Flood Prevention Planning Office, River Environment Division, Water and Disaster Management Bureau, Ministry of Land, Infrastructure, Transport and Tourism
 Appraisal and Real Estate Appraisal Supervision Office, Land Price Research Division, Real Estate and Construction Economics Bureau, Ministry of Land, Infrastructure, Transport and Tourism
 Center for Research on Real Estate Innovation (CREI), The University of Tokyo

● Secretariat

Real Estate Market Division, Real Estate and Construction Economics Bureau, Ministry of Land, Infrastructure, Transport and Tourism
 EY Ernst & Young ShinNihon LLC

Conference Schedule

2020

June: 1st WG (Jun 4th for the financial sector, June 19th for the real estate sector)

September: 2nd WG (Sep 3rd for the financial sector, Sep 9th for the real estate sector)

2021

January: 3rd WG (jointly held on Jan 21st for both the financial and real estate sectors)

March: 4th WG (jointly held on Mar 19th for both the financial and real estate sectors)

Site for this Guidance

"ESG-TCFD Practitioner Working Group for the Real Estate Sector" in website of the Ministry of Land, Infrastructure, Transport and Tourism

URL : https://www.mlit.go.jp/totikensangyo/totikensangyo_tk5_000215.html

※ You can find it by searching by the keyword [TCFD Guidance MLIT].

Sites linked to this guidance

The following websites have also introduced and linked to this guidance. We hope you will also refer to these websites.

- Ministry of Economy, Trade and Industry

Policy Studies > Policy Studies > Energy and Environment > Global Warming Solutions > Trends in Climate Change-Related Information Disclosure URL:

https://www.meti.go.jp/policy/energy_environment/global_warming/disclosure.html

- TCFD Consortium

TCFD Consortium Home > What is TCFD?

URL: <https://tcf-consortium.jp/about#realEstateGuidance>

- JPX ESGKnowledgeHub [Japan Exchange Group]

About JPX > Sustainability > JPX ESG Knowledge Hub > Introduction of ESG Information Disclosure Framework > TCFD Proposal

URL: <https://www.jpx.co.jp/corporate/sustainability/esgknowledgehub/disclosure-framework/02.html>

- Climate Change Adaptation Information Platform (A-PLAT) [National Institute for Environmental Studies]

HOME > Adaptation by Business Operators > Reference Material on Adaptation by Business Operators

URL: https://adaptation-platform.nies.go.jp/private_sector/resources/index.html#j04