

[Provisional Translation]**Draft of Revised Comprehensive Guidelines for Supervision of Financial Instruments
Business Operators, etc.**

VI. Supervisory Evaluation Points and Various Administrative Procedures (Investment Management Business)

VI-2 Appropriateness of Business (Investment Management Business)

VI-2-3 Appropriateness of Business Operations Related to Investment Trust Management Business, etc.

[\(The following section will be added to the existing comprehensive supervisory guidelines.\)](#)

VI-2-3-5 Points of Attention with respect to ESG Investment Trusts

(1) Background

The number of investment products which incorporate Environmental Social and Governance (ESG) factors in their names and investment strategies has been increasing both in Japan and overseas, and at the same time, concerns over “greenwashing” that their actual investments may not be commensurate with their ESG claims are attracting attention globally.

Given this background, regarding publicly offered investment trusts in Japan which position ESG as a key factor in the selection of investment assets (hereinafter referred as “ESG investment trust”), it is necessary to ensure credibility of the market, to promote ESG investment and to help building sustainable society.

In order to help retail investors make informed investment decisions, supervisors will examine disclosure of publicly offered investment trusts and organizational resources and due diligence of investment trust management companies regarding ESG by paying attention to the following points.

(2) Scope of ESG investment trusts

An ESG investment trust is a publicly offered investment trust fund which

- i. considers ESG as a key factor in the selection of investment assets , and
- ii. describes it in the "Objective and Characteristics of the Fund" section of the delivery prospectus.

Where investment management is delegated to a third party, the classification of a fund into ESG fund should be decided by the investment trust management company appropriately in accordance with the investment strategy of its invested funds.

(3) Disclosure

i. Prevention of customer misunderstanding

Where an investment trust does not fall under the category of ESG investment trust, supervisors will check the following.

- Whether the name or nickname of the investment trust excludes ESG-related terms such as ESG, SDGs (Sustainable Development Goals), green, decarbonization, impact, sustainable, etc. in order to avoid misleading investors.
- Where the investment trust which was set up before the end of March, 2023 includes ESG-related terms in its name or nickname, whether the delivery prospectus clearly states that the investment trust is not an ESG investment trust so as not to mislead customers.
- Where an ESG factor is only considered as one factor along with other factors such as financial indicators in the selection of investment assets, the description of ESG-related initiatives described in the "Objective and Characteristics of the Fund" of the delivery prospectus and so on is not exaggerated so that clients may not be misled into thinking that the role of ESG is the main factor in the selection of investment assets.

ii. Investment Strategy

Supervisors will check whether the following items are described in the "Objective and Characteristics of the Fund" section of the delivery prospectus of the ESG investment fund.

- a details of key ESG factors (e.g. comprehensive ESG rating or a specific environmental or social issue) in the selection of investment assets
- b how key ESG factors are taken into account in the investment process (e.g., explanation of relevant criteria and indicators, evaluation methods, etc.)
- c risk and limitation in consideration of key ESG factors in the investment process
- d regarding an ESG investment trust that aims to create such impact in order to build a sustainable society, the description of its purpose, details of environmental or/and social impact and how to measure and achieve it including target indicators and numbers, and methodologies
- e the content of the stewardship policy, where an investment trust management company has one related to the investment strategy with ESG as a key factor in the selection of investment assets
- f the references, where the fund discloses details of the above items from a through e on the website of the investment trust management company, etc.

iii. Portfolio Construction

Where an ESG investment trust has a target or guideline ratio of investments (on a market value basis) that are selected by ESG as a main factor out of its net asset value, or where it has other target or guideline indicators for evaluation of key ESG factors in the investment strategy, supervisors will check whether the ratio or other figures is disclosed in the "Objective and Characteristics of the Fund" section of the delivery prospectus.

iv. Reference Index

Where an investment trust seeks to track a specific ESG index, supervisors will check whether it explains how ESG factors are incorporated in the index in the "Objective and Characteristics of the Fund" section of its delivery prospectus.

v. Periodic disclosure

Supervisors will check whether the following items are disclosed periodically in the delivery investment reports (timely disclosure documents for Exchange-Traded Funds; the same applies hereinafter) and the "Investment Performance" section of the delivery prospectus of an ESG investment trust.

- a the actual proportion, where it has a target or guideline ratio of investments selected with ESG as a major factor (on a market value basis) out of its net asset value
- b the status of achievement, where it has target or guideline indicators for key ESG factors in the investment strategy
- c regarding an ESG investment trust that aims to create environmental or/and social impact in order to build a sustainable society, the extent of the impact achieved
- d the actions taken in accordance with the stewardship policy where an investment trust management company has a stewardship policy related to the investment strategy that selects investment assets with ESG as a major factor
- e the references, where the details of the above items from a through d are disclosed on a website, etc.

vi. Outsourcing

Where investment management of an ESG investment trust is delegated to a third party, supervisors will examine whether the investment management trust company conducts appropriate due diligence on the third party and review the status of investment, and in addition to whether the investment trust discloses the actual status of (2) to (5) of its invested funds in the

"Objective and Characteristics of the Fund" section and the "Investment Performance" section of the delivery prospectus and the delivery investment reports.

Supervisors will check whether the reason is explained in case of difficulty in the disclosure above.

(4) Resources and Due Diligence

i. Organizational Resources

Supervisors will examine whether the investment manager has adequate resources to implement operations in line with the investment strategy of an ESG investment trust and to monitor the implementation status on an ongoing basis. These resources include development of data, IT infrastructure and human resources regarding ESG.

Where investment management of an ESG investment trust is delegated to a third party, supervisors will check whether the investment trust management company has appropriate resources in place to conduct due diligence on the organizational resources of the third party and to confirm the status of the investment.

ii. Use of ESG Rating and Data Providers

When ESG ratings provided by a third party are used in the investment process of publicly offered investment trusts, or when data provided by a third party is used in own ESG assessment by an investment trust management company, supervisors will check whether the investment management trust company conducts appropriate due diligence which could include an understanding of its organizational resources, what is being rated or assessed by its product, how it is being rated or assessed and, limitations and purposes for which its product is being used.

VI-2-3-6 Other considerations

(Omitted)