

[Provisional Translation]

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.

[\(The following section is included in the existing comprehensive supervisory guidelines.\)](#)

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

(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 with ESG factors included in their names and investment strategies, it is necessary to ensure their credibility in the market and to promote ESG investment, which will help build sustainable society.

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

(2) Scope of ESG investment trusts

In this Supervisory Guidelines, an ESG investment trust is defined as a publicly offered investment trust which

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

Where its investment management is delegated to a third party (including the case of “Funds of Funds”), the classification of the investment trust into ESG investment trusts should be decided appropriately by its entrusting investment trust management company in accordance with the investment strategy and portfolio composition 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.

- 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 an ESG factor is considered along with other factors such as financial indicators in the selection of investment assets, ESG-related initiatives described in the "Objective and Characteristics of the Fund" of its delivery prospectus, sales materials, advertisement, etc. would not mislead customers into thinking that ESG is a key factor in its selection of investment assets.
- Where an investment trust which has been set up before the end of March, 2023 includes ESG-related terms in its name or nickname although it is not categorized as ESG investment trusts, that its delivery prospectus clearly states that it is not an ESG investment trust.

Please note that if an investment trust applies to the third case above, it is recommended that its investment management trust company excludes ESG-related terms from its name or nickname as soon as possible.

ii. Investment Strategy

Supervisors will check the following items are described in the "Objective and Characteristics of the Fund" section of the delivery prospectus of an ESG investment trust. It is also accepted for point c below to be described in the "Investment Risk" section.

- a details of key ESG factors (e.g. comprehensive ESG rating or specific environmental or social issues) in the selection of investment assets
- b how key ESG factors are considered 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 environmental or/and social impact in order to build a sustainable society, description of its purpose, details of the impact and how to measure and achieve it including target indicators and numbers, and methodologies
- e the content of the stewardship policy, where the investment trust management company has one related to key ESG factors in the selection of investment assets that is company-wide or specifically dedicated to the investment strategy
- f the references, where an ESG investment trust discloses further details of the above

items from a through e on the website of the investment trust management company, etc.

iii. Portfolio Construction

- An ESG investment trust has a target or guideline ratio of its investment asset (on a market value basis) that are selected by the use of key ESG factors out of its net asset value
- An ESG investment trust has other target or guideline indicators for evaluation of achievement of the whole portfolio regarding key ESG factors in the selection of investment asset.

Where either or both of the above is true, supervisors will check the ratio or figures are disclosed in the "Objective and Characteristics of the Fund" section of its delivery prospectus. Where it does not set such target or guideline ratio, supervisors will check the reason behind is explained.

iv. Reference Index

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

v. Periodic disclosure

Supervisors will check the following items are disclosed periodically in the delivery investment reports (periodic 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 investment assets selected with the use of key ESG factors (on a market value basis) out of its net asset value
- b the status of achievement, where it has target or guideline indicators for evaluation of the whole portfolio regarding key ESG factors considered in the selection of investment assets
- 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 one related to key ESG factors considered in the selection of investment assets that is company-wide or specifically dedicated to the investment strategy
- e the references, where the further 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 outsourced to a third party,

supervisors will check the investment management trust company conducts appropriate due diligence on the third party and review the status of investment management, and that it discloses the actual status of (2) to (5) of its invested funds in its delivery prospectus and delivery investment reports. Supervisors will check the reason behind is explained in case of difficulty in the disclosure above.

(4) Resources and Due Diligence

i. Organizational Resources

Supervisors will check that an investment management trust company has adequate resources to implement operations in line with an investment strategy considering ESG factors and to monitor its implementation status on an ongoing basis. These resources include development of data, IT infrastructure and human resources regarding ESG factors.

Where investment management of a publicly-offered investment trust is delegated to a third party, supervisors will check that 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 (3) ii to v of the invested funds.

Where these disclosure are difficult to be made, supervisors will check the reason behind is stated.

ii. Use of ESG Rating and Data Providers

When an ESG rating provided by a third party is 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 it conducts appropriate due diligence which could include an understanding of the organizational resources of the third party, 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-2-3-5 Other considerations (Omitted)

VI-2-4 Appropriateness of business relating to foreign investment trust management business

Examination of the appropriateness of investment management business for establishing foreign investment trusts and giving direction for investment directly from Japan should be conducted in accordance with VI-2-3 (excluding VI-2-3-2 (2) and (3), VI-2-3-4, and VI-2-3-5).