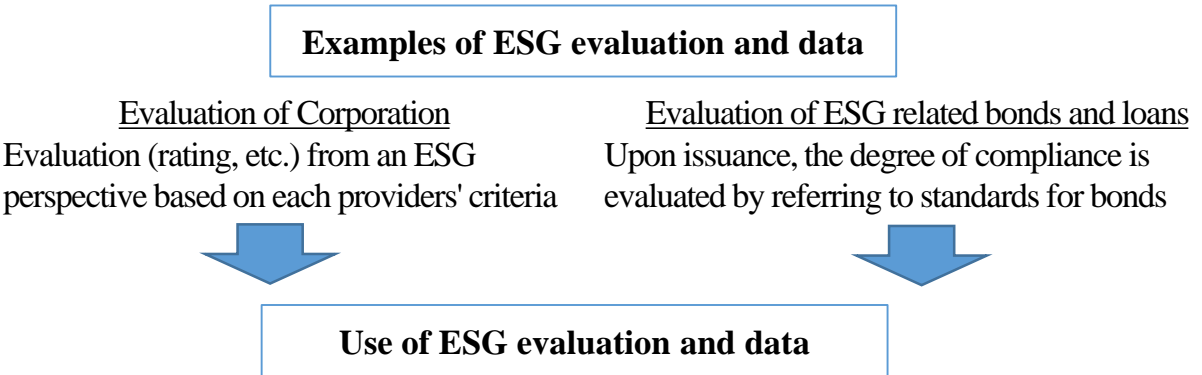


ESG evaluation and data provider

- As sustainable finance is expanding around the world, the role of “ESG evaluation and data providers,” which collect, provide, and evaluate information on companies’ ESG initiatives or ESG-related bonds including green bonds, is increasing.
- **A report by The FSA’s Expert Panel on Sustainable Finance** in June 2020 pointed out the need to **promote discussions on “Code of Conduct”** to ensure the fairness and neutrality of ESG evaluation and data. In February 2022, the FSA established **the Technical Committee for ESG Evaluation and Data Providers, etc.** to consider items to be include in the Code, as well as discuss broader issues related to companies evaluated and institutional investors using the evaluations.



Investments in stocks and bonds

- Institutional investors incorporate ESG factors into their investment decisions when formulating investment policies and selecting portfolios, which is so-called ESG integration.
- When issuing ESG-related bonds, it is common to obtain an evaluation of compliance with various domestic and international standards or ESG-related eligibility

Indices based on ESG evaluation

- An increasing number of institutional investors create corporate indices based on ESG evaluations and data (ESG indices) and invest in companies that track these indices.

Engagement using ESG evaluation and data

- For example, "Climate Action 100 +," an international climate change initiative led by institutional investors, has made it clear that it uses ESG evaluation to examine strategies for dialogue in collaborative engagement with large companies

Issues pointed out by the Expert Panel

Ensuring transparency and fairness of evaluations
Evaluation criteria vary by ESG evaluation and data providers, making it difficult to understand evaluation results.

Potential conflicts of interest
Paid consulting services for companies subject to assessment

Securing human resources
Securing human resources to ensure the quality of evaluations and data

Burden on companies
Although companies are required to check the evaluation details, satisfaction with the evaluation is not adequate.

A Report of the Technical Committee for ESG Evaluation and Data Providers

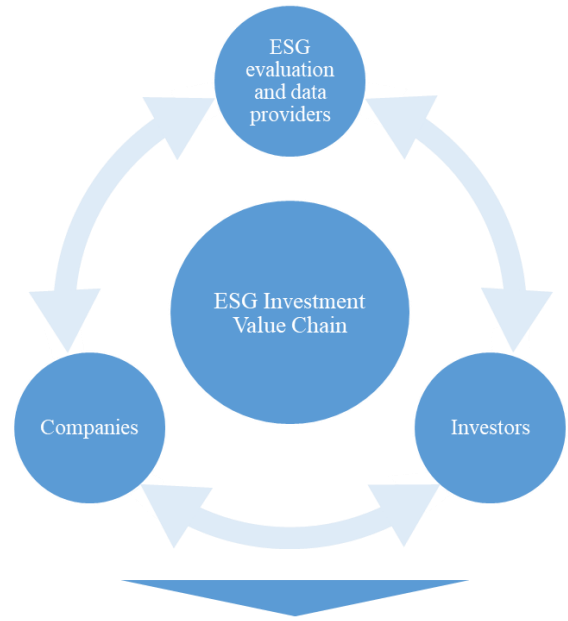
- The Technical Committee for ESG Evaluation and Data Providers compiled a draft "Code of Conduct" to ensure transparency and fairness of **ESG evaluation and data providers** that evaluate corporate ESG initiatives. The draft report, published in July 2022, set out recommendations for ESG evaluation and data providers, institutional investors, and companies.
- Based on the Technical Committee’s report the FSA publishes a draft **Code of Conduct for public consultation (from July to September 5)**.
 (note) Toward the finalization of the Code of Conduct, the FSA will call for voluntary endorsement of the Code from ESG evaluation and data providers that provide services in Japan. The Code will not be laws or regulations, but are designed to be voluntary on a “comply or explain” basis, where the providers supporting the Code will either comply with the principles and guidelines of the Code, or explain the reasons why they do not comply with a particular item.)

Recommendations for ESG evaluation and data providers (draft Code of Conduct)

- **Ensuring Transparency**
Disclosing the objective, approach and basic methodology of ESG evaluations.
- **Human Resource Development**
Securing necessary professional human resources as organization and developing their own professional skills.
- **Avoiding or managing the risks of conflicts of interest**
Identifying their own activities and situations that could undermine the independence, objectivity, and neutrality of their business, and avoiding or reducing the risks of, potential conflicts of interest.
- **Communication With Companies**
Clarifying a contact point with a company, allowing it for confirmation and correction of input data for evaluation, and disclosing these procedures in advance.

Recommendations for institutional investors and companies

- Clarifying the basic approach of how they utilize ESG evaluation and data in their investment decisions (investors)
- Disclosing ESG information in an easy-to-understand manner and contact point for responding to inquiries from ESG evaluation and data providers (companies)



Through mutual encouragement of the market as a whole, improve the quality of evaluations, etc

(*1)developed in light of international reports by IOSCO (*2)Academic and media organizations are not included in the scope