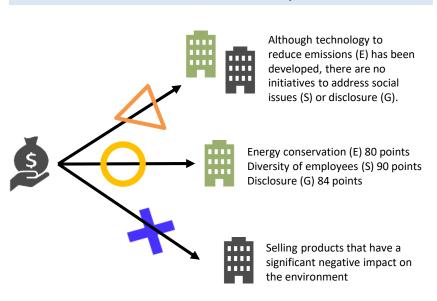
Overview of the Report by the Working Group on Impact Investment

- As the importance of social and environmental issues such as decarbonization, declining birthrate and aging population increases, the support of companies engaging in innovation that contribute to solving social or environmental issues has become an urgent task.
- The Working Group on Impact Investment, established by the Financial Services Agency, Japan (JFSA) in October 2022, has extensively discussed roles of impact investment and <u>published its report in June 2023, including draft Basic Guidelines and policy measures or impact investment</u>.

Widely spread ESG investment method

<u>Comprehensively evaluating companies' ESG initiatives</u>
to determine investment ratios or <u>excluding specific</u>
<u>industries</u> from investment portfolio



Propose 1 to 4 as key principles for impact investment

Impact investment

<u>Identify and commit to the specific impact</u> that should be realized through an investment and <u>invest in companies that promote innovation</u> that realizes the intended impact

1. Intentionality the intended "social or environmental impact" and "profitability" is clarified

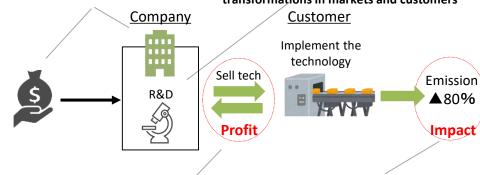
2. Additionality

investment

additional impact is expected through the

4.Innovation/transformation
/acceleration
Support novelty that could lead to accelerate

transformations in markets and customers



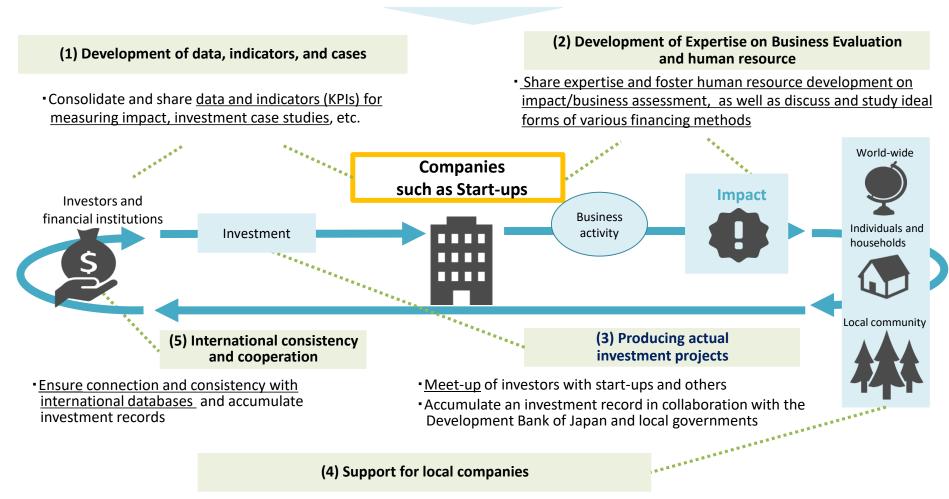
3. Identification, measurement and management

Identifying, measuring, and managing impact

Promoting impact investment will encourage start-ups, large corporations and regional companies that seek to address social or environmental issues with new ideas and creativity.

Measures to Promote Impact Investment

As an <u>infrastructure to foster investment</u>, the JFSA will <u>formulate "Basic Guidelines"</u> on impact investment (public consultation till October) as well as support to establish a <u>"Consortium"</u> bringing together various stakeholders from the public and private sectors. The following measures may be further considered mainly through the Consortium.



- Promote dialogue among local stakeholders and gather issues in cooperation with investment corporations, businesses and financial industries, universities, local governments, and organizations involved in regional revitalization
- Encourage financial methods with characteristics intermediate between equity and debt such as loans that requires repayments according to amounts of sales

Outline of draft Basic Guidelines for Impact Investment

- The JFSA formulates the draft "Basic Guidelines" to foster common understanding on "impact investment," which intends to realize both "social or environmental impact" and "financial return."
- Toward the finalization of the Guidelines, the JFSA will actively communicate with market participants in Japan and overseas through dialogues and public consultations.
- Objective: To **foster a common understanding** of the basic concept and processes of impact investment
- Scope: Regardless of the types of investees, investors entity or asset classes
- Nature: **Principle-based**, to encourage a wide range of creativity and ingenuity, in light of developing nature of the market
- Principles: (i) Intentionality (ii) Additionality (iii) Identification, measurement and management (iv) Support for novelty



Intentionality

Clarify both impact and

formulate strategies

effects of investment

profitability of investments and

> Identify and mitigate any adverse

Additionality

investment

- measurement and management Explain the intended impact and financial return, which would not
- Implement financial and nonfinancial support

otherwise be foreseen without the

Measure and manage in quantitative or qualitative terms by utilizing objective indications

Identification,

Realize impact through engagement with investees



Support for novelty

- Identify and support the novelty and advantages of investee companies and businesses that can create or accelerate changes in the market and customers
- Conduct dialogue in a manner that could harness investees' novelty and potential to develop and cultivate the market

Impact Financial return



