

Provisional Translation

Expert Panel on Sustainable Finance, FSA

Fourth Report

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Financial Services Agency
Expert Panel on Sustainable Finance

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1. Introduction - Publication of the fourth report

The Expert Panel on Sustainable Finance has been discussing sustainable finance as "a financial mechanism and infrastructure that supports the development of the economy, industry, and society toward a desirable future through embedding such future perspective in decision-making processes and actual actions on a wide range of issues related to sustainability."

It has been a year of great progress for sustainable finance in Japan. For example, the government sent a strong message on the promotion of sustainable finance in Japan at the "PRI in Person" event held in October 2023¹. In February, the first tranche of "GX Economy Transition Bonds²" was issued. In March, the SSBJ³ published an exposure draft of Sustainability Disclosure Standards in Japan. In May, the Impact Consortium, a forum for public-private partnerships to promote impact investment (impact finance), was officially launched.

In addition, there are many areas in which Japan has led discussions, such as improving the transparency of ESG evaluation organizations and promoting transition finance, which were actively discussed at this expert panel. Many stakeholders in Japan collaborated to take the lead in taking actions to and disseminating the information of these areas.

On the other hand, there are still many issues of sustainable finance to be addressed, such as further fostering common understanding, human resource development, effective promotion of the GX project including regional initiatives, and enhancement of international cooperation. Recently, in addition to climate change, issues and interests related to sustainability are expanding to such as biodiversity and human capital.

The *raison d'être* of "ESG investment" is being reconsidered, in light of rising energy prices and the challenges of "greenwashing⁴". For example, the need of sufficient consideration to social (S) issues, such as employment and local communities, when responding to environmental (E) issues is being recognized. Another example is that the

¹ Prime Minister Kishida, in his keynote address, stated that "Addressing social challenges through investment would encourage companies to drive change, enhance sustainability of our economies and societies, as well as harness growth potential of our world. This would, in turn, provide long-term financial opportunities to both investors and the beneficiaries who entrust their funds to the investors." He also stated that "I hereby announce that as the government we would proceed with necessary background work, and that seven representative public pension funds, worth of 90 trillion yen, or \$600 billion in AUM, will start preparations for newly becoming signatories to the Principle for Responsible Investments."

² Individual issues of GX Economy Transition Bonds, which is named as "Japan Climate Transition Bonds," were issued for the first time.

³ SSBJ: Sustainability Standards Board of Japan

⁴ Misleading others to believe that a company or other entity is doing more to protect the environment than it is.

importance of capturing the social and environmental effects (impacts) realized by investment and linking them to the sustainable growth of the investment asset itself is also being recognized.

Private entities such as investors and financial institutions mainly bear the practical operations of sustainable finance. On the other hand, the role of the government in making efforts to foster understanding of stakeholders, develop human resources, and develop guidelines and frameworks is also important. This Expert Panel plays an important role to discuss the roles of the public and private players, grasp the overall picture of the efforts of various parties concerned.

The Expert Panel has been held 24 times since December 2020, and has published three reports so far in each 12 months period (July to June of the following year). This fourth report describes mainly market participants' efforts and issues from July 2023 to June 2024, and the main opinions presented at the meeting during this period. This is not the conclusions of the collegial body.

In this report, domestic and international trends and progress related to each theme of sustainable finance, as well as discussions on issues and responses to them, are briefly described, and core issues are listed at the beginning. For details, explanatory notes and URLs provide basic materials of the progress and efforts by stakeholders. Readers could refer to these as necessary.

2. Core issues

Due to the active efforts of investors and financial institutions, and various measures by the government, together with international trends, sustainable finance initiatives have made significant progress over the past few years.

On the other hand, global challenges, such as the adverse impact of climate change⁵, widening economic disparities and poverty, are becoming increasingly serious. Also in Japan, the realization of a sustainable society is still on the way, while witnessing the record low birth rate and rapid aging of the population.

A sustainable society cannot be realized by finance alone, but the role of finance is expected to be significant, as it is a central mechanism that drives capitalism in tandem with the real economy.

In particular, while significant progress has been made in a lot of initiatives as mentioned above, there are still issues to be addressed, such as expansion and penetration into various stakeholders, addressing important issues such as climate transition, and grasping diversifying issues. Individual themes are described in Chapter 3, but the particularly important points (core issues) are as follows.

(1) Promoting and prevailing a broad understanding among investors

Sustainable finance aims to strengthen the foundation of economic activities through improving environmental and social issues, thereby increasing economic and social growth and sustainability. It is considered to be significant for a wide range of institutional investors and individual investors in terms of protecting and increasing the value of long-term investment and loan portfolios⁶.

While sustainable finance initiatives and policies are making progress, the understanding of their basic significance is not necessarily widely recognized. There are also differences in the status of initiatives among institutional investors such as asset owners, and it has been pointed out that it is not easy to tangibly perceive, or retain a hands-on understanding on at the level of individual perception how those sustainability-related investment strategies or investee's initiatives.

For this reason, it is important to organize and disseminate the essential significance,

⁵ On June 5, the World Meteorological Organization (WMO) announced that there is an 80% chance that the global annual average temperature will temporarily exceed 1.5°C above pre-industrial levels in the next five years.

⁶ In the "[Policy Plan for Promoting Japan as a Leading Asset Management Center](#)," the importance of diversification of asset class to include sustainable investments has been pointed out from the viewpoint of expansion of supply of growth funds and diversified investment.

basic methods, and core strategies of sustainable finance in a way that is easy to understand and tangible for investors who are not necessarily familiar with sustainable finance, leading to better and broader understanding.

(2) Promotion of GX (Green Transformation) and transition finance

There are three main approaches to transition finance: (a) discussion and dissemination of concept and content; (b) mobilization of funds for establishing actual projects; and (c) transition strategy by each financial institution that is the main player of fund mobilization.

The concept and significance of transition finance are being recognized globally, driven by the initiatives of Japan. The significance of transition finance was highlighted at the G7 Hiroshima Summit held in May 2023. On the other hand, there are various discussions internationally on what constitutes credible transition finance. Deeper discussions and more active dissemination are expected to be made in Japan as well to further foster understanding. In addition, regarding the treatment of so-called "financed emissions⁷," announcements toward taking shape of discussion have been made through public-private working groups in Japan and global net zero alliances.

Although significant progress has been made over the past year, such as the government's announcement of its "Sector-specific Investment Strategies" and issuance of "Japan Climate Transition Bonds," mobilization of private funds is a remaining challenge, as it is estimated that more than 150 trillion yen will be needed over the next 10 years to realize the Green Transformation (GX) of the country. It will be important to raise not only the quantity but also the quality of the funds mobilized, through efforts to deepen the understanding of investors, and to make the mobilized funds truly contribute to the promotion of the GX. In addition, given that the realization of the GX will mean a major transformation of Japan's industrial structure, it will be important to reaffirm the perspective of industrial finance and at the same time support a "Just Transition."

Discussions are taking shape on how to position "transition plans" for risk management and client support at financial institutions, i.e., how to position a "transition" strategy toward decarbonization in light of financial institutions' business strategies and capital management policies for the future. In particular, there are many discussions overseas on how to position and understand climate change and other sustainability issues as climate-related transition risks and physical risks⁸, and opportunities for the entire financial

⁷ ["Addressing the Challenges of Financed Emissions"](#)

⁸ Transition risks: Business-related risks that follow societal and economic shifts toward a low-carbon

system. There are also moves to incorporate "transition" into the framework of supervision for financial sector. Japan, which has led transition finance, is expected to lead the framework discussions.

As initiatives based on the GX Promotion Strategy are progressing, it is particularly important for regional financial institutions to cooperate with local industries and local governments to promote decarbonization and GX in accordance with the actual conditions of each region⁹. Considering effective and realistic support measures for this purpose is also essential.

ISSB issued its first sustainability disclosure standards in June 2023. In implementing these standards, practical challenges are expected in data aggregation and provision, including for regional companies. Therefore, developing a database that enables realistic and efficient responses is important.

Furthermore, as the promotion of the GX project is getting into full swing, carbon credit transactions are expected to further expand. From the perspective of ensuring transparency and soundness of market, it is vital to advance discussions on the development of market infrastructure including transaction manners.

(3) Addressing diversifying sustainability issues and promoting impact investment

Sustainable finance is an infrastructure that supports a sustainable economy and society, and issues to be considered are not limited to decarbonization and GX but extend to broader areas. The Kunming-Montreal Global Biodiversity Framework adopted in 2022 set a goal of "Nature Positive"¹⁰ toward 2030¹¹. Appropriate responses to "business and human rights" issues, and ensuring diversity, also known as DEI¹², can lead to the enhancement of social sustainability through the development of human capital.

These various issues have both positive and negative impacts on each other, which needs to be understood accurately. For example, the conservation of natural capital can

and more climate-friendly future.

Physical risks: Risks of impacts on business performance and on the value of assets induced by acute risks, i.e. weather-related events such as floods and hurricanes, and chronic risks, e.g. temperature increase and sea-level rise.

⁹ In 2021, the "[Regional Decarbonization Roadmap](#)" was formulated by the Council for National and Local Decarbonization, and the "[Plan for Global Warming Countermeasures](#)" based on the Act on Promotion of Global Warming Countermeasures was approved by the Cabinet.

¹⁰ Taking urgent action to halt and reverse biodiversity loss to put nature on a path to recovery ([Transition Strategies toward Nature Positive Economy](#)).

¹¹ In December 2022, the "[Kunming-Montreal Global Biodiversity Framework](#)" was adopted as a new international target. In Japan, the Ministry of the Environment, the Ministry of Agriculture, Forestry and Fisheries, the Ministry of Economy, Trade and Industry, and the Ministry of Land, Infrastructure, Transport and Tourism formulated the "[Transition Strategies toward Nature Positive Economy](#)" in March 2024.

¹² DEI: Diversity, Equity, Inclusion

have a mutual impact with climate change, and when responding to climate change, consideration needs to be given to employment and local communities factors.

Impact investment (impact finance), which aims to realize social or environmental effects ("impact") and at the same time secure a certain level of financial returns, is attracting increasing interest in this context. Impact investment is expected to play a major role as an innovation in the financial sector that supports companies that achieve business growth through efforts to address various sustainability issues. The Impact Consortium, which brings together, not only impact investors, but also impact startups, local governments, non-profit organizations and others, was officially launched this year. It is expected to keep this momentum and advance practical discussions on data development, market formation, local practices, and public-private partnerships.

There are various initiatives to promote sustainable finance, including the above-mentioned core issues. The status of domestic and global initiatives is shown in Figures 1 and 2 below.

(Figure 1) Sustainable finance initiatives (Overview)

Initiatives to Promote Sustainable Finance (Overview)

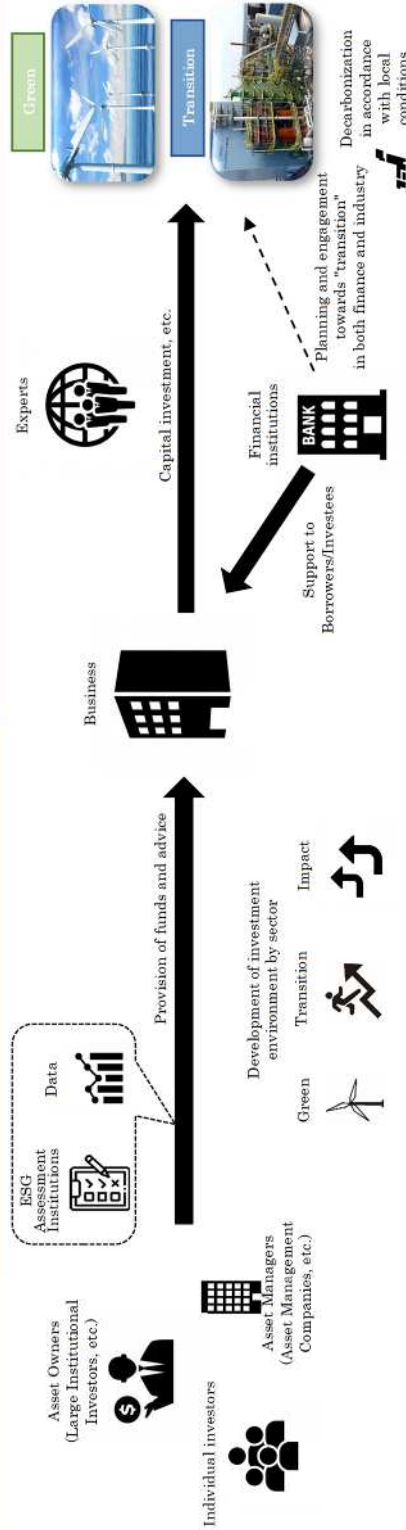
■ In order to promote the function of finance that enhances economic and social growth and sustainability (sustainable finance), the Financial Services Agency (FSA) holds the Expert Panel on Sustainable Finance and is advancing various initiatives, including discussions on a wide range of issues, including the following points.

Development of capital market function

- Discussing the timing of the application and the framework of guarantee of sustainability disclosure standards in Japan at the Financial System Council
- Discussing the development of a database in Japan for corporate sustainability information, such as GHG emissions.
- Summarized the status of endorsement for the "Code of Conduct" (Dec. 2022) by ESG evaluating institutions and data providers (as of the end of June 2024). Checking the status of each institution's response, further actions are considered.

Penetration into a wide range of stakeholders

- The "Dialogue for Enhancing Sustainability Investment Products" was held and the "Insight" from discussion was published (July 2024). Discussion on expected roles of sustainability investment or flagship investment opportunity continues.
- Utilizing the "Skills Map," which summarizes the necessary skills to practically promote sustainable finance, discussions with industry associations, universities, etc. continues.



Development of investment and finance environment by category

- Considering international developments regarding green bonds, etc., discussions on Japan's framework are being held in collaboration with relevant ministries and agencies.
- Transition finance is being promoted through the development of guidelines in collaboration with related ministries and agencies while the GX Promotion Strategy is announced by the Government. The Asia GX Consortium is another initiative to internationally promote transition finance.
- The "Basic Guidelines" for impact investment is formulated (Mar. 2024). Data development, corporate strategy, local support measures, etc. are being discussed at the "Impact Consortium," a public-private partnership.

Initiatives on decarbonization

- The "Guidance" on the basic approach for financial institutions' response to climate change was formulated (July 2022). Intending possible updates of the Guidance, discussion on the transition strategy framework continues.
- Enhancing and disseminating support in accordance with the actual circumstances of each region in collaboration with regional financial institutions and business associations, etc.
- At the "Working Group," discussion is being done on the transition infrastructure and market practices, from practical and expert perspectives, to ensure the transparency and soundness of carbon credit transactions.

(*) This slide illustrates information on the status of domestic and overseas initiatives related to sustainable finance collected and summarized by the secretariat of the Expert Panel.

(Figure 2) Overview of sustainable finance initiatives

(Reference) Overview of sustainable finance initiatives

	Progress seen to date	Measures to be considered and implemented in the future	
Development of stakeholder function	Enhancement of corporate disclosure	Discussion on the framework of sustainability disclosure and assurance, taking into account feedback on the public consultation of the Exposure Draft	
	Development of information and data infrastructure	Discussions on data development by public and private sector participants	
	ESG evaluation and data providers	Checking the status of each company's response, and considering further concrete measures	
	Development of investment opportunity	Discussion on the fundamental value of investment and the approaches to creating flagship investment opportunities	
Penetration into stakeholders	Human resources development and enhancement	Measures to enhance and develop a wide range of human resources along with discussing diverse targets	
	Green finance	Discussions on improving the financial environment towards further market development	
Development of investment and finance environment by stakeholders	Transition finance	Promotion of public-private cooperation, including through the GX Acceleration Agency	
	Impact investment (Impact finance)	Discussions on the development of indicators/data, impact measurement/corporate strategy, and public-private partnerships (incl. regional issues)	
	Social finance	Expansion of issuance practices among private parties	
	Risk management of financial institutions	Further discussion on the framework of transition strategy	
Initiatives on decarbonization	Client engagement	Further consideration on customer engagement/support by financial institutions	
	International expansion and penetration	Leading international discussions and dissemination	
	Development in Asia	Further discussion towards the international promotion of transition finance	
	Regional GX	Enhancing and disseminating support in accordance with the actual conditions of each region	
	CC Market	Practical considerations and discussions taking into account the domestic progress and growing international interest	

(*) This slide illustrates information on the status of domestic and overseas initiatives related to sustainable finance collected and summarized by the secretariat of the Expert Panel.

3. Initiatives and issues in sustainable finance

Development of capital market function

(1) Enhancement of corporate disclosure

[Progress]

- Companies, which are the main actors in business promotion, are also the central actors in sustainability initiatives. It is important to enhance corporate disclosure, which encourages voluntary initiatives by companies and serves as a prerequisite for effective engagement with various stakeholders, such as investors, financial institutions, business partners and workers.
- A new section for sustainability information has been added to the Annual Securities Reports, and mandatory disclosure on corporate sustainability has started from the fiscal year ending March 31, 2023¹³¹⁴. In addition, in the "Reference casebook of good practices on the disclosure of narrative information"¹⁵ published every year since 2021, FSA has taken up the examples of corporate sustainability information disclosure to enhance better practice.
- As for specific sustainability disclosure standards, an exposure draft was published in March this year by the SSBJ¹⁶, based on the international standards (ISSB standards) finalized in June 2023.
- Furthermore, the "Working Group on Disclosure and Assurance of Sustainability Information" was established in March this year¹⁷ under the Financial System Council to discuss (i) the scope of companies subject to the SSBJ standards, (ii) the application timing of the standards and (iii) related assurance framework. The Working Group has been discussing the necessity of requiring globally-operating Japanese companies to disclose sustainability information based on standards that are equivalent to the international baseline ISSB standards, as well as the scope, timing and transitional measures.
- In addition, in November 2023, the Basel Committee on Banking Supervision published a consultation document calling on banks to disclose the volume of GHG emissions associated with their financing activities (financed emissions)

¹³ FSA "[Sustainability Information Disclosure](#)" [available only in Japanese]

¹⁴ FSA "[Overview of Revised Sections for Sustainability Disclosure](#)" [available only in Japanese]

¹⁵ [English summary](#) of 2023 edition

¹⁶ SSBJ "[The SSBJ issues Exposure Drafts of Sustainability Disclosure Standards to be applied in Japan](#)"

¹⁷ Financial System Council "[The Working Group on Disclosure and Assurance of Sustainability-related Financial Information](#)"

as a part of the Pillar 3 disclosure framework. The discussions are underway based on the opinions from a wide range of stakeholders¹⁸.

[Issues and responses]

- The Working Group and the SSBJ are discussing the framework of sustainability disclosure and assurance. In accordance with international discussion, for better functioning capital market, it is important to provide reliable information necessary for investors to evaluate enterprise value over the medium to long term and conduct constructive engagement.
- With regard to the disclosure of financed emissions by financial institutions, there are also issues on how to position the information appropriately in light of issues such as definitions, data quality, and administrative burdens related to the development of emissions data as described in section (2), and issues related to short-term increases as described in section (10). It is essential for public and private sectors to consider feasible and effective framework and for FSA to encourage international discussions.

(2) Development of information and data infrastructure

[Progress]

- As a prerequisite for the effective functioning of the market as a whole, it is important to develop and provide a data infrastructure that aggregates and provides corporate and other sustainability information, including publicly disclosed information.
- The FSA has taken necessary measures to improve its computer systems so that non-financial information published in the Securities Reports can be easily used as organized data by data analysis companies and researchers¹⁹²⁰²¹.

¹⁸ Basel Committee on Banking Supervision Consultative document "[Disclosure of climate-related financial risk](#)".

¹⁹ The amount of GHG emissions is an effective indicator that contributes to constructive engagement between investors and investee companies. In light of this situation, companies are expected to actively disclose the amount of GHG emissions in Scope 1 and Scope 2 in particular, while judging the materiality of the GHG emissions based on the business category and management environment of each company ([Report of the Disclosure Working Group of the Financial System Council \(June 2022\)](#)).

²⁰ In December 2023, the [FSA updated the Taxonomy](#) (a set of electronic tags) so that it can be widely used by the general public in the form of XBRL (a computer language that enables electronic tagging of disclosure documents and the efficient acquisition of information) through EDINET (Electronic filing entry network for financial statements).

²¹ Based on the Act on Promotion of Global Warming Countermeasures, the Ministry of the Environment requires businesses that emit more than a certain amount of GHG to calculate their

- Development of GHG emissions data is a particular challenge. Specialized companies utilizing such data to grasp SMEs and suppliers efforts toward decarbonization, investors and financial institutions have started supporting initiatives^{22,23}.
- Internationally, parties involved in the establishment of the "Taskforce on Climate-related Financial Disclosures (TCFD)" announced in November 2022 the "Net-Zero Data Public Utility (NZDPU)" initiative, which aims to establish a platform for climate-related data collection²⁴.

[Issues and responses]

- While expectations for the development and aggregation of data are increasing, the definition of non-financial information is not necessarily fixed in quantitative terms, and many issues have been pointed out regarding the standardization of production methods, quality control, and the practical burden associated with data development²⁵. It is important to develop practical and reliable data that serves as the basis for the engagement of companies, investors, and financial institutions through collaboration between data developers and users.
- With regard to GHG emissions in particular, many practical issues have been pointed out, such as how to converge measurement methods for each industry, how to ensure international interoperability, and how to ensure and display data quality. Given these issues, public and private sector participants are expected to engage and cooperate to discuss how data should be developed in Japan²⁶.
- In addition, it has been pointed out that data held by public agencies may be effectively used for improving sustainability and for sustainable finance. Therefore, discussion of these issues in the public-private frameworks, like the

own emissions and report them to the government. The results are published online (the EEGS system), and a function was added to the system that enables small businesses, which are not subject to reporting requirements, to calculate their emissions and publish information on their reduction efforts. The system was put into operation in June this year.

²² A typical business model is to simply measure GHG emissions using standard emission factors and Standard Industrial Classifications, and to promote data management and support using the likes of cloud service.

²³ The Sustainability Data Standardization Consortium is discussing the standardization of items for engagement between financial institutions and companies on sustainability initiatives.

²⁴ NZDPU is promoting proof-of-concept experiments with the aim of developing internationally open data infrastructure, based on the recognition of the importance of data quality control, which is an important indicator of mutual engagement, in order to promote effective measures by investors and companies,

²⁵ For example, some point out the measurement scope, granularity and data comparability of non-consolidated and consolidated financial statements.

²⁶ For example, in NZDPU, "round tables" are held to identify practical issues and needs of companies and institutions in each country including Japan.

Impact Consortium (see section (8)), will be important.

(3) ESG evaluation and data provider

[Progress]

- Along with ESG data, ESG evaluation, which analyzes companies' sustainability initiatives, is also information widely used not only for investment decisions, but also for determining engagement policies. Therefore, it is important for "ESG evaluation and data providers" to function appropriately.
- As of the end of June this year, a total of 24 ESG-evaluating institutions and 16 ESG-data providers endorsed the "Code of Conduct for ESG Evaluation and Data Providers" released by the FSA in December 2022²⁷.
- Furthermore, in February this year, the Council of the EU and the European Parliament reached a provisional agreement on a proposal for a regulation on ESG rating activities in the EU and subject them to obtain an authorization from, and supervised by the European Securities and Markets Authority (ESMA). On the other hand, the UK and Singapore have adopted the "Codes of Conduct" approach similar to Japan. Global discussions on ESG evaluation and data providers are continuing on what regulations and codes should look like²⁸²⁹³⁰.

[Issues and responses]

- The Code of Conduct was developed in Japan ahead of other countries. It is essential to accurately understand the actions of market participants and current status of ESG evaluations under this Code regime, and to encourage wide-ranging discussions with participants in the EU, the UK, and Singapore, which are developing regulations or codes.
- In particular, the development of effective governance structures by ESG evaluation and data providers and the enhancement of engagement with

²⁷ See "List of Rating Agencies That Have Expressed Acceptance of the Code of Conduct for ESG Evaluation and Data Providers" published by the FSA. If a single agency expresses its support for both of the ESG Evaluation or Data Providers category, the number of supporting agencies above is calculated for each category.

²⁸ The Regulation is to be applied 18 months after its entry into force, and in principle it is also to be applied to non-EU rating agencies providing services within the EU.

²⁹ In December 2023, the UK published a code of conduct titled "[Code of Conduct for ESG Ratings and Data Product Providers](#)," in which the FSA and other Japanese regulators participated in the ESG Data and Ratings Working Group that formulated the code. Here, it was expected that industry associations establish codes of conduct first before considering the possibility of introducing such regulations, without ruling out the possibility of introducing regulations in the future.

³⁰ In Singapore, the Monetary Authority of Singapore (MAS) developed and published the [Code of Conduct for ESG Rating and Data Product Providers](#) (December 2023).

companies are the fundamental background issues that triggered the formulation of the Code of Conduct. Further consideration to concrete measures while checking the status of each company's response is important.

Penetration into a wide range of stakeholders

(4) Enhancement of investment opportunities for a wide range of investors

[Progress]

- Enhancing investment opportunities for a wide range of market participants, including institutional investors and retail investors, could lead to depth of the sustainable finance market and increase corporate growth and sustainability through investment. In addition, it would also lead to increase the options for providing funds according to the investment preferences of each investor and to increase in long-term and stable investment assets.
- In relation to asset owners,³¹ in October 2023, Prime Minister announced that the Government would proceed with necessary background work, and that major public pension funds would start preparations for signing the PRI³². In addition, the “Asset Owner Principle” (draft) announced in June requires, for example, asset managers to give consideration to sustainability when necessary in light of the view of stakeholders and the purpose of their own investment, and formulation of a sustainability investment policy³³.
- In relation to retail investors, the FSA revised the Supervisory Guidelines³⁴ in March 2023 to clarify the information disclosure of ESG-related investment trusts that retail investors can invest in. Based on this, the FSA organized a “*Dialogue on Enhancing Sustainability Investment Products (Dialogue)*” with asset managers, distributors, investees, and retail investors to discuss investment

³¹ For the purpose of this report, institutional investors are conveniently divided into asset managers (e.g. asset management), which are entrusted with the management of funds and invest, and asset owners (e.g. insurance companies, pension funds and corporations), which are the providers of such funds.

³² At the PRI in Person held in October 2023, the prime minister pointed out the significance that asset managers and owners engage in dialogues with companies and promote growth and sustainability, and announced the government would proceed with necessary background work, and that main public pension funds will start preparations for newly becoming signatories to the Principle for Responsible Investments.

³³ “[Asset owner principle](#)”(draft) under public consultation [available only in Japanese]

³⁴ Supervisory Guidelines defines ESG investment trust 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.

products that encourage various participation into the sustainability investment market.

[Issues and responses]

- Enhancing investment opportunities would essentially require the continuous dialogue with a wide range of market participants while understanding of the effects of investment according to the strategies and preferences of each investor. In particular, in the "Dialogue" above, the following points were pointed out as issues that may affect not only retail investors but also institutional investors³⁵.
 - Sustainability investment is in essence not a product name but an investment strategy and practice including engagement with companies. In reality, however, its essence is not easy to grasp and understand³⁶.
 - On the other hand, it is pointed out that products with clear use of funds and concise investment impact in fact tend to draw investment interests more widely, such as bonds for improving community environments, equity investment in local startups, as they provide tangible, hands-on understanding on real-world investment characteristics and outcomes.
 - In particular, sustainability investment and active investment would have several common expected functions: finding and improving the potentials of investees, providing expert analysis of range of companies. It would be equally important to promote understandings.
- In order to expand investment opportunities, including for individual investors, providing opportunities and information would be important to be able to actually experience the fundamental value and effects of investment based on investors' needs, such as contributing to the sustainability impacts and investment returns, not aiming to increase the offerings of "ESG"-named products.
- At the same time, it is not always easy to gain a concise understanding of the specific contents and effects of sustainability investments.

³⁵ See in detail the FSA's ["Insights from Dialogue on Enhancing Sustainability Investment Products"](#). In this chapter, the term "sustainability investment" is used to comprehensively encompass all the investments that take sustainability into account in investment decisions in line with the description of "Insights"

³⁶ In Europe, as regulations on explanation and disclosure of sustainability investment products, the SFDR stipulates the obligation to explain, however, there are not in its nature to provide a common understanding of core concept of characteristic of sustainability investment products.

- To this end, for example, exploring and discussing the following themes at the expert panel are worth consideration:
 - Nature of investment opportunities and characteristic, based on fact-finding surveys on investor preferences and intentions, including comparisons with overseas markets.
 - Approaches on innovations and its possibility that lead to the creation of flagship sustainability investment opportunities; and
 - Core concepts and practices on investments that can achieve sustainability and growth, that are easy for business and investors to understand and could be clues to consider elements such as fundamental value, strategy, and explanations of sustainability.

(5) Developing and enhancing human resources for sustainability

[Progress]

- In parallel with penetration into a wide range of investors, developing human resources who will broadly engage in sustainable finance initiatives is also important.
- The FSA published the Skills Map for Human Resources³⁷ in December 2022 given the shortage of professional human resources pointed out by companies and financial institutions³⁸. Some universities are enhancing their lectures or programs³⁹, and industry associations are also increasing training and teaching materials and making improvements⁴⁰.

[Issues and responses]

- With regard to the development of sustainability human resources, both the development of young talents with a wide range of backgrounds and professionals with higher knowledge are continuing challenges. Bearing in mind

³⁷ FSA “[Skills Map for Human Resources](#)” [available only in Japanese]

³⁸ FSA has conducted a [questionnaire survey](#) [available only in Japanese] and identified that many financial institutions answered the shortage of human resources that can understand sustainability issues such as decarbonization or biodiversity, understand and disclose in-house initiatives and dialogue with other companies practically. In order to make up for the shortage, the financial institutions pointed out that training and experience in this industry is effective.

³⁹ For instance, [the University of Tokyo](#), [Tokyo Institute of Technology](#), [Waseda University](#), [Keio University](#). [available only in Japanese]

⁴⁰ For instance, the Japanese Bankers Association, the Life Insurance Association of Japan, the General Insurance Association of Japan and Japan Securities Dealers Association are promoting several initiatives including training for practitioners.

- these demand, taking detailed and specific measures is needed.
- For example, persons in charge of disclosure, investment, financing, and other practical operations have knowledge about their own work areas but are often in silos. Therefore, taking measures to disseminate knowledge across all levels and sections, including the management level is important.
 - Wider sharing of human resource needs and specific career development images is worth of considering. For example, making efforts in collaboration between business, government, academia, and financial institutions is important, such as disseminating the needs from industry associations, and sharing actual examples between industry and academia on career development for human resources with interdisciplinary background.
 - In addition, in order to expand the range of human resources who are interested in sustainability, promoting open discussions with a wide range of generations, genders, occupations, and other diverse backgrounds is also important.

Development of investment and finance environment by category

(6) Promotion of green finance

[Progress]

- The Green Bond Guidelines⁴¹ developed in 2017 have been revised twice, triggered by the addition of eligible products and the revision of international principles.
- In FY 2023, the "Working Group on the Green List" was held under the "Committee on Green Finance" of the Ministry of the Environment to review the Green List, a positive list of eligible green projects, KPIs, and negative environmental impacts in Appendix 1 of MOE Japan's green finance guidelines, from the viewpoint of consistency with international principles and various domestic policy plans. In addition, the above mentioned Committee is discussing issues and measures for further development of the green finance market, including measures for improving and ensuring the quality of green finance⁴².

[Issues and responses]

- International principles on green finance products, such as green bonds, have

⁴¹ MOE "[Green Bond and Sustainability-Linked Bond Guidelines](#)", "Green Loan and Sustainability Linked Loan Guidelines".

⁴² MOE "[Launch of the Working Group on the Green List](#)".

been updated from time to time. It is important to continue discussions in Japan and to reflect the results of such discussions in the Japanese framework in a timely manner.

(7) Promotion of transition finance

[Progress]

- With regard to transition finance, the Financial Services Agency (FSA), the Ministry of Economy, Trade and Industry (METI), and the Ministry of the Environment (MOE) formulated the "Basic Guidelines on Climate Transition Finance" in May 2021⁴³. Subsequently, in June 2023, the FSA, the METI, and the MOE formulated the "Transition Finance Follow-up Guidance"⁴⁴ as a guide of engagement with fund raisers after providing funds.
- In addition, in October 2023, the "Working Group on Financed Emissions to Promote Transition Finance", held by relevant ministries and agencies, published the "Addressing the Challenges of Financed Emissions"⁴⁵. It proposes solutions to the financed emissions challenge in order to appropriately evaluate and promote the financing of innovation towards decarbonization and transition efforts by hard-to-abate sectors without concern of the possibility of a temporary increase in financed emissions. In addition, the GX League has published a compilation of examples of financial institutions' use cases of the "Avoided Emissions", quantified contribution on climate change mitigation, which is one of the indicator for evaluating climate-related opportunities⁴⁶.
- The overview of such initiatives has been introduced and discussed at international fora, including the PRI in Person held in October 2023, and has been favorably received. Japan has taken the lead in discussions on transition finance.
- Recently, since July 2023, the "GX Promotion Strategy"⁴⁷ and "Sector-specific Investment Strategies"⁴⁸, which include implementation policies for Pro-Growth

⁴³ FSA, METI and MOE "[Basic Guidelines on Climate Transition Finance](#)"

⁴⁴ FSA, METI and MOE "[Guidance on Follow-ups Involving Transition Finance](#)"

⁴⁵ Japan Public and Private Working Group on Financed Emissions to Promote Transition Finance "Addressing the Challenges of Financed Emissions"

⁴⁶ "[Leveraging Avoided Emissions: Financial Institution Case Studies](#)"

⁴⁷ "[The Strategy for Promoting Structural Transition based on Decarbonization \(GX Promotion Strategy\)](#)" [available only in Japanese]

⁴⁸ GX Implementation Council "[Sector-specific Investment Strategies](#)"

Carbon Pricing Concept, were announced one after another. In February this year, the world's first government-issued transition bond, the Japan Climate Transition Bond, was issued⁴⁹. These are examples of the progress made by the government.

- In addition, the "GX Acceleration Agency" started operation in July under the GX Promotion Act. Further efforts are expected, such as implementing supplementary measures of financial support such as debt guarantees to promote GX investment, implementation and operation of emissions trading system, and collection of the fossil fuel levies⁵⁰⁵¹.

[Issues and responses]

- Progress has been steadily made in international discussions on transition finance in response to disseminations and announcements from Japan. "The Study Group for Discussing Development of Environment for Climate Transition Finance" led by the METI and relevant bodies is considering revisions to the Basic Guidelines mentioned above, which is an importance initiative.

- In addition to promotion of the GX by the government as a whole, a wide range of initiatives are important, including the formulation of "Transition Plans" by companies and initiatives to promote GX finance, such as collaboration between the GX Acceleration Agency and private and public financial institutions.

In addition, Japan Climate Transition Bonds are intended not only to raise funds, but also to foster understanding of Japan's GX policy and to serve as a catalyst for further expansion of transition finance in Japan and overseas. Therefore, it continues to be important for the public and private sectors to engage continuously toward penetration of concept of GX and transition, and, expansion of transition finance, both in Japan and abroad.

(8) Promotion of impact investment (impact finance)

[Progress]

- The importance of "impact" investment, which identifies social or environmental impact to be achieved through investment, is also increasing as

⁴⁹ Cabinet Secretariat, FSA, Ministry of Finance, METI and MOE "[Japan Climate Transition Bond Framework](#)"

⁵⁰ "[Overview of GX Promotion Act](#)" [available only in Japanese]

⁵¹ In addition, as a response to the demand-side in the creation of the GX market, the Study Group on the GX Product Market, which contributes to demand creation for the enhancement of industrial competitiveness and the reduction of emissions, published "[Public and Private Sector Initiatives for the Creation of the GX Market](#)" (interim report) [available only in Japanese] in March this year.

an investment method to support companies that are working to achieve business growth by responding to social and environmental issues and to strengthen the economic and social infrastructure.

- The FSA established the "Basic Guidelines" for impact investment in March this year⁵², and presented four basic elements for realizing social or environmental impact, at the same time to secure "financial return."
- Furthermore, from the viewpoint of sharing and discussing practical knowledge and methods widely, the Impact Consortium was officially launched by a wide range of participants, like experts, companies, financial institutions, investors and local governments, in May this year, and various discussions are being advanced.
- The relationship between the inclusion of non-financial elements such as impacts in investments and the fiduciary duty of institutional investors⁵³ has been discussed in previous reports of this Expert Panel. In relation to this, the "Grand Design and Action Plan for New Capitalism (2024 Revised Version)"⁵⁴, which was decided by the Cabinet in June, advocates that the consideration of non-financial factors, including impacts, from the viewpoint of improving medium- to long-term investment returns does not constitute "consideration of irrelevant matters"⁵⁵.

[Issues and responses]

- There can be a wide range of markets and types of impact investment, such as listed and unlisted markets, urban and regional markets, unicorns and zebras, equity and debt, and the way of understanding impact investment among market participants is also diverse.
- For this reason, when promoting discussion and engagement among various market participants through the consortium, in cooperation with international networks, it is important to clarify of the growth stage, regional characteristics, and size of investees, and to appropriately accumulate discussions accordingly.
- As impact investment has been driven by the efforts and initiatives of private

⁵² FSA "[Basic Guidelines on Impact Investment \(Impact Finance\)](#)"

⁵³ Responsibilities and duties that those who manage and invest the funds of others should fulfill for the benefit of the beneficiaries

⁵⁴ "[Grand Design and Action Plan for a New Form of Capitalism 2024 Revised Version](#)"

⁵⁵ To invest entrusted funds for purposes other than the benefit of its members and beneficiaries in spite of a fiduciary responsibility as a trustee, such as a pension fund, to faithfully perform its duties only for the benefit of its members and beneficiaries (duty of loyalty).

sector investors, companies, networks, utilizing and respecting these private sector efforts is important. On the other hand, in light of the characteristics of promoting business in response to social issues, cooperation between the public and private sectors is in many cases effective. One of the examples is the development of indicators and data as these are difficult to organize by the private sector alone, and another important example is the promotion of efforts through public-private partnerships, including local governments.

- In addition, corporate strategies that link impact measurement to creation of corporate value have become major issues in both the public and private sectors. Discussions should be proceeded by distinguishing the target companies according to their characteristics, such as listed corporates or regional companies. In these discussions, it is also possible to accumulate cases and research on impact-weighted accounting, which quantifies impacts as financial values.

(9) Diversifying sustainability issues

[Progress]

- In order to build a sustainable economy and society, aside from climate change, there are various other challenges in so-called "ESG" (environmental, social and governance) such as biodiversity and human capital⁵⁶⁵⁷.
- Taking these issues into account, there are various initiatives in Japan and overseas to analyze the risks and opportunities that these various issues give to businesses and utilize them in various management actions. In the financial sector, there are initiatives of disclosure, engagement between investors or financial institutions and companies, ESG evaluations providers, etc., referring to past initiatives in the climate agenda.⁵⁸⁵⁹
- In addition, as with climate change, it will be important to discuss between the

⁵⁶ Regarding "E" (environment) issues, international discussions are advancing on various themes such as mitigation of climate change (e.g. reduction of GHG), adaptation to climate change (e.g. prevention or reduction of the impact of disaster preparation), and natural capital including biodiversity.

⁵⁷ In Japan, the "Guidelines for Respecting Human Rights in Responsible Supply Chains" were formulated in September 2022 to sort out the measures required of companies from the viewpoint of business and human rights.

⁵⁸ For example, with regard to biodiversity, the Taskforce on Nature-related Financial Disclosures has presented a disclosure framework that follows the TCFD climate change disclosure framework (covering governance, strategy, risk management, etc.).

⁵⁹ The European Corporate Sustainability Reporting Directive (CSRD) requires companies to disclose sustainability issues including human rights and the resources consumption.

public and private sectors, such as so-called "blended finance"⁶⁰, particularly in the field of development finance. For example, the "Advisory Panel on New Financing for Development" hosted by the Ministry of Foreign Affairs highlighted the importance of collaboration between sustainable finance, which is mainly financed by the private sector, and ODA.

[Issues and responses]

- As sustainability issues are wide-ranging, companies, investors and financial institutions are expected to identify priorities and take effective measures considering resource constraints.
- ISSB will commence research projects regarding disclosure on "biodiversity, ecosystems and ecosystem services" and "human capital," following climate changes. However, priority issues may differ depending on the situation of companies and institutions. Considering measures in accordance with the materiality of companies, investors, and financial institutions is important.
- In addition, as seen in climate change, natural capital and human capital, sustainability issues are often highly correlated with each other. Therefore, it is important to understand the issues without fragmenting and separating them, and to consider and discuss them from a cross-sectional perspective. This Expert Committee has to discuss the sustainability issues from such perspective as well. Companies and institutions are expected to recognize their own materiality and implement risk management and mutual engagement accordingly from such perspective.

Initiatives on decarbonization

(10) Risk management and client support at financial institutions, including scenario analysis

[Progress]

- Financial institutions' responses to climate change includes risk management and customer support, in particular, responses related to transition (see section (7)), and the international expansion of such initiatives (see section (11)), and they closely relate each other.

⁶⁰ A mechanism to provide funds by combining multiple funds with different risk / return preferences, such as private funds and public funds, in fields such as development finance and impact investment.

- Identifying and promoting responses to climate change and other sustainability-related risks and opportunities at financial institutions is important to ensure the growth and sustainability of both companies and financial institutions themselves.
- The FSA published its "Guidance"⁶¹ in July 2022 as a baseline for supervisory dialogues between the FSA and financial institutions to promote better practices at financial institutions. In addition, the FSA and the Bank of Japan conducted a pilot scenario analysis project in collaboration with three mega-banks and three major non-life insurance groups, and published the results of the project in August 2020⁶².
- International organizations such as the NGFS and foreign authorities are publishing their views on the transition plan. In Japan, the FSA published the "Report by the Working Group on Financial Institutions' Efforts towards Decarbonization of the Economy" in June 2023⁶³.
- The IMF Financial Sector Assessment Program (FSAP), which was conducted from 2023 to May this year, pointed out the need to enhance scenario analysis and take a systemic approach to supervision concerning climate-related risks⁶⁴.
- In addition, large financial institutions participating in the global net zero Initiatives⁶⁵ are taking steps such as formulating sector-specific transition plans (financed emissions outlook for 2050) as required by the Initiatives⁶⁶. Client companies of these institutions are also making progress in discussions on their transition plans in the GX League and elsewhere, considering the characteristics of each company, while taking into account the Sector-specific Investment Strategies based on the "Basic Policy for the Realization of GX"⁶⁷.

[Issues and responses]

- Identifying risks and opportunities related to the businesses of their customers is

⁶¹ FSA "[Supervisory Guidance on Climate-related Risk Management and Client Engagement](#)".

⁶² FSA and BOJ "[Pilot Scenario Analysis Exercise on Climate-Related Risks Based on Common Scenarios](#)".

⁶³ FSA "[Report by the Working Group on Financial Institutions' Efforts towards Decarbonization of the Economy](#)".

⁶⁴ IMF "[FINANCIAL SECTOR ASSESSMENT PROGRAM IMF Country Report of Japan](#)".

⁶⁵ Initiatives for international net zero by investors and financial institutions have been organized by the GFANZ Financial Alliance for Net Zero, together with sector-specific initiatives by banks (Net Zero Banking Alliance), asset owners (Net Zero Asset Owner Alliance), and asset managers (Net Zero Asset Managers).

⁶⁶ For example, [Mitsubishi UFJ Financial Group](#), [Sumitomo Mitsui Financial Group](#), [Mizuho Financial Group](#), [Nippon Life Insurance](#), [Dai-ichi Life Insurance](#), [Sumitomo Life Insurance](#), [Meiji Yasuda Life Insurance](#).

⁶⁷ "[The Basic Policy for the Realization of GX](#) (Cabinet Decision 10th February 2023) "

important to reduce risks and promote opportunities, thereby ensuring the profitability of businesses of customers and financial institutions themselves into the future and contributing to the growth and sustainability of the whole economy and society.

- Responses to climate change are accompanied by uncertainties such as domestic and international policy trends, responses of industries, and other complex changes. In particular, towards the long-term transition to decarbonization, forward-looking and dynamic analysis should be taken since corporate capital investment through finance by financial institutions will lead to reducing transition risks and physical risks in the future.
- Transition finance, which has been advocated and promoted by Japan, is gaining international recognition as a financial method that encourages innovation by companies and the economy as a whole. On the other hand, financial institutions are currently exploring ideal forms of transition finance, including risks and opportunities and the positioning of transition strategies, in light of their entire business strategies and capital policies for the future.
- In particular, so-called financed emissions tend to increase at the beginning of transition as more capital expenditures are needed initially. On the other hand, such investments are essential for long-term risk reduction. Practical discussions are also expected on how to position and disclose the financed emissions in long-term transition strategies and management plans.
- In the process of transition, progresses in industrial technologies, market innovations, and international standards may change. Therefore, according to the latest contexts, it is important to review these discussions if needed.
- To this end, it is important for the FSA, for example, to engage with financial institutions, international organizations, and foreign authorities, based on the aforementioned "Guidance", and consider a framework for strategy toward transition appropriate for the size and characteristics of financial institutions, while intending the possible update of the Guidance.
- Specifically, FSA is expected to consider how financial institutions' responses to climate change like transition support for customers can be positioned in the framework of their business strategies and risk management policies, such as scenario analysis, resource allocation, and understanding of systemic risk. That will encourage transition of customers of the institutions, and will also be useful

- for financial institutions' practices to reduce risks and promote opportunities.
- Furthermore, in order to continuously improve the methodology and framework of scenario analysis, the FSA and the BOJ are expected to conduct a second exercise of scenario analysis using common scenarios in the next year in collaboration with three mega-banks and a dozen of non-life insurers⁶⁸.
 - As domestic and overseas financial institutions are expected to engage with companies and the authorities in a more full-scale manner in the future, it will be important for large financial institutions in particular to sort out and examine how to position their management strategies and net zero policies, and their policies for customer engagement, in a mutually consistent manner, while taking into account the discussions by the authorities⁶⁹.

(11) International expansion and penetration of efforts related to decarbonization

[Progress]

- At the G7 Hiroshima Summit in May 2023, the significance of transition finance as an effective method for promoting decarbonization was highlighted⁷⁰.
- In international private-sector initiatives, the importance of transition finance and further understanding and discussion of its details have been pointed out, including discussion and dissemination at the Japanese branch offices of such initiatives⁷¹.
- The Government of Japan is also making progress in this regard, as seen in the adoption of a joint statement at the summit meeting of the Asia Zero Emission Community (AZEC) held in Tokyo for the first time⁷². As another example, the FSA hosted the "Asia GX Consortium" kick-off meeting, for discussions among financial authorities and private institutions⁷³.

⁶⁸ FSA and BOJ "[Climate-Related Scenario Analysis – Next Step in the Banking Sector](#) - "

⁶⁹ For example, the TCFD Consortium is formulating the Transition Plan Guidebook.

⁷⁰ "[G7 Hiroshima Leaders' Communiqué](#)"

⁷¹ For example, the GFANZ Japan Chapter was established in June 2023 and has been engaged in various discussions. In December 2023, the Net-Zero Banking Alliance (NZBA) published a discussion paper on transition finance KPIs entitled "[Developing Metrics for Transition Finance](#)."

⁷² In December 2023, a meeting was held in Tokyo with the participation of the leaders of 11 Asian countries. At the meeting, a joint statement was adopted concerning basic principles towards decarbonization, support for specific projects, and the importance of achieving net zero through various pathways. "[Asia Zero Emission Community \(AZEC\) Leaders Meeting](#)"

⁷³ With the participation of financial institutions, the Asian Development Bank, ASEAN financial authorities, GFANZ, and others, the Consortium will deepen discussions on engagements, data collection and information disclosure, transition planning, carbon credit, blended finance, and other topics, taking into account local conditions in Asian countries. The results of the discussions will be published in October this year. "[Asia GX \(Green Transformation\) Consortium holds kick-off meeting](#) (FSA)"

[Issues and responses]

- Transition finance has attracted international attention in recent years, as Japan has led the discussion and response in collaboration with the METI, the FSA, companies, investors, financial institutions, and others.
- As transition finance is becoming increasingly important, Japanese stakeholders are expected to continue to lead discussions on the framework and to make it more persuasive by leading to the implementation of actual projects. Public and private sectors are expected to work together in outreaching internationally.

(12) Regional GX initiatives

[Progress]

- GX of SMEs is becoming more important⁷⁴, as SMEs account for approximately 20% of all GHG emissions in Japan and more than 90% of the number of companies⁷⁵. The number of companies implementing or considering measures to address carbon neutral initiatives is increasing⁷⁶.
- In addition, relevant ministries and agencies such as the FSA, the MOE, and the METI regularly hold briefing sessions on governmental support measures available for decarbonization in order to encourage regional financial institutions to support customers.
- The MOE, as part of "ESG Regional Finance" promotion program, continues to support regional financial institutions' initiatives that contribute to the improvement of regional sustainability and the creation of environmental and social impacts⁷⁷.

[Issues and responses]

- Recognition of the importance of decarbonization measures seems to be spreading, however, in reality, it is not necessarily easy for each company to take

⁷⁴ The "[Basic Policy for Realization of GX](#)" also states that in order to achieve carbon neutrality while maintaining and strengthening competitiveness, it is essential to make efforts towards GX throughout the entire supply chain, including not only large enterprises but also medium and small enterprises.

⁷⁵ According to the [2024 White Paper on Small and Medium Enterprises in Japan](#) [available only in Japanese], 99.7% of all Japanese enterprises are SMEs.

⁷⁶ According to a survey of SMEs conducted by the Shoko Chukin Bank in July 2023, over 40% of respondents said that they "have already implemented" or "are considering" measures to address the impact of movement towards carbon neutrality, an increase from around 20% in 2021.

⁷⁷ In March this year, the MOE published the "[Practical Guide to ESG Regional Finance 3.0](#) [available only in Japanese]," which summarizes the knowledge gained through the implementation of the support projects and actual cases.

- action as they face various management issues and have limited know-how.
- Therefore, in supporting SMEs' actual efforts toward the GX, it is important to gain understanding that decarbonization measures not only reduce the climate related "risks" and GHG emissions, but also lead to the improvement of corporate management and the creation of business opportunities⁷⁸.
 - For example, it is considered important to establish an initiative and framework to disseminate information in an easy-to-understand manner in accordance with the circumstances of each region, so that the effectiveness and economics of decarbonization measures can be understood, including the provision of examples of initiatives and support.
 - When measuring and utilizing financed emissions, disseminating examples and concepts of rational measurement, utilizing DX (digital transformation), is important as both financial institutions and their customers will bear considerable human and financial burdens related to the development of data and systems^{79,80}.

(13) Carbon credit market

[Progress]

- With regard to carbon credits, the Basic Policy for the Realization of GX and other documents stipulate that the emissions trading system for the GX League will be fully-scale launched in FY 2026 with the aim of implementing Pro-Growth Carbon Pricing Concept⁸¹.
- Transaction forms have been diversifying in Japan as well, such as the launch of market transactions on the Tokyo Stock Exchange⁸², development of transaction networks, participation in transactions by financial institutions, regional credit

⁷⁸ The Kinki Local Finance Bureau, in collaboration with the Bureau of Economy, Trade and Industry and the Environment Office, interviews the top management of financial institutions and corporate client of the institutions in the area about decarbonization, and is making efforts to [disclose the results](#) [available only in Japanese].

⁷⁹ In March this year, the MOE published the "[Study Report on Utilization and Sophistication of Portfolio Carbon Analysis](#)," which summarizes methods for calculation and analysis of financed emissions, issues related to these methods, and the process for formulation of transition strategies with reference to international guidance.

⁸⁰ The Partnership for Carbon Accounting Financials (PCAF), a private-sector initiative, has developed and is continuing discussions on a formula that serves as the basis for calculating financed emissions for each asset class. Many financial institutions have adopted this formula.

⁸¹ The GX Implementation Council and the Study Group on legal issues of emissions trading system toward realization of GX are currently conducting detailed studies toward the full-scale launch of the emissions trading system in FY 2026.

⁸² (Japan Exchange Group) "[Opening of the Carbon Credit Market and Start of Trading Today](#)"

origination, and use of advanced technologies. Transactions is expected to further expand and diversify in the future.

- Similarly, systems and exchanges are being developed in many countries, and significance of these initiatives is often pointed out from the viewpoint of promoting decarbonization and visualizing non-financial values.
- In addition, there are recommendations for improving the transparency and soundness of transactions, such as the consultation report published by the International Organization of Securities Commissions (IOSCO) in December 2023⁸³ and the principles regarding carbon credit transactions published in the United States in May of the year⁸⁴.

[Issues and responses]

- Given the increasing international interest in carbon credits and the expansion of transaction networks among financial institutions and intermediation for clients in Japan, it is important to conduct studies and discussions, from practical and expert perspectives, on the transaction infrastructure and market practices to ensure transparency and soundness of carbon credit transactions.
- Various discussions are already being conducted by the relevant ministries and agencies⁸⁵, and continuous practical discussions in cooperation with them is important.

⁸³ IOSCO's "[Voluntary Carbon Markets Consultation Report](#)" points out risks of market fragmentation or double counting of the same credit, due to the coexistence of trading infrastructures, inappropriate use of new technologies, and lack of established trading practices. It proposes that financial authorities consider measures to promote the sound creation of markets and investor protection.

⁸⁴ The White House "[Voluntary Carbon Markets Joint Policy Statement and Principles](#)"

⁸⁵ For example, FSA's [Working Group](#) [available only in Japanese] on Financial Infrastructure for Carbon Credit Transactions, or METI's [Study Group](#) [available only in Japanese] on legal issues of emissions trading system toward realization of GX.

(Reference) List of meetings related to sustainable finance

Development of capital market function

[Corporate disclosure]

- [The Working Group on Disclosure and Assurance of Sustainability-related Financial Information \(of the Financial System Council\)](#) (FSA)
Discuss issues and frameworks of sustainability disclosure and assurance
- [TCFD Consortium](#) (METI, FSA, MOE)
Companies, investors, and financial institutions that support the TCFD Recommendations work together to promote initiatives and discuss initiatives for effective information disclosure and linking disclosed information to appropriate investment decisions
- [Sustainability Standards Board](#) (SSBJ)
(Financial Accounting Standards Foundation)
Deliberates on research and development of sustainability disclosure standards and on dissemination of opinions on international standards development.
- [JPX ESG Knowledge Hub](#) (Japan Exchange Group)
Provides mainly video content explaining the ESG Disclosure Handbook and the latest information on ESG-evaluating institutions and ESG disclosure frameworks

[Data Infrastructure]

- [JPX Sustainable Finance Platform Development Working Group](#) (Japan Exchange Group)
Practically considered information platforms that broadly aggregate information of such as Green Bonds (until Jan. 2022)

[ESG Evaluating institution]

- [Technical Committee for ESG Evaluation and Data Providers](#) (FSA)
Discussions on expected codes of conduct for ESG evaluation / data providers (until Nov. 2022)

Penetration into a wide range of stakeholders

[Investment opportunities]

- [Dialogue on Enhancing Sustainability Investment Products](#) (FSA)
A wide of stakeholders participated in the dialogue and discussed the points for promoting the expansion and provision of sustainability investment products (until June 2024)

Development of investment environment by sector

[Sustainable finance]

- [Expert Panel on Sustainable Finance](#) (FSA)
Discuss wide range of issues and measures related to sustainable finance
- [ESG Finance High Level Panel](#) (MOE) [in Japanese]
Discuss Various issues to raise awareness and initiatives related to ESG finance

[Green Finance]

- [Committee on Green Finance](#) [in Japanese](MOE)
Discuss revision of various guidelines such as the Green Bond Guidelines
- [Working Group on the Green List](#) (MOE)
Discuss enhancing the list of eligible green project (Appendix 1 of the Green Finance Guidelines)

[Transition finance]

- [GX Implementation Council](#) [in Japanese](Cabinet Secretariat)
Discuss measures necessary to realize Green Transformation
- [GX League](#) (METI)
A forum for cooperation between a group of companies and the government, universities, and academic institutions in order to meet GHG reduction targets and increase industrial competitiveness by using Japan's goal of carbon neutrality by 2050 as an opportunity for economic growth
- [Study Group for Discussing Development of Environment for Climate Transition Finance](#) [in Japanese] (METI, FSA, MOE)
Discuss basic guidelines in Japan for transition finance like transition bonds.
- [Japan Public and Private Working Group on Financed Emissions to Promote Transition Finance](#) [in Japanese] (METI, FSA, MOE)
Discussed challenges of measuring and evaluating financial institutions' progress toward decarbonization by financed emissions (until Sep. 2023)
- [Study Group on Financing for GX by Industry \("GX Finance Study Group"\)](#) [in Japanese] (METI, FSA, MOE)
Discussed measures to mobilize private funds in the GX industry (until Dec. 2022)
- [Taskforce Formulating Roadmaps for Climate Transition Finance](#) [in Japanese] (METI)
Discussed roadmaps for each sector to promote transition finance (until Feb. 2023)

[Impact investment]

- [Impact Consortium](#) (FSA, METI)
Interactive communication platform where impact-driven stakeholders could join in and share their expertise and experiences
- [Working Group on Impact Investment](#) (FSA)
Discussed roles of impact investment, which was compiled as the "Basic Guidelines for Impact Investment (Impact Finance)" (until Feb. 2024)
- [Impact Investing Roundtable](#) (GSG Impact JAPAN, FSA)
A workshop for financial market stakeholders and government officials to discuss significance and issues in promoting impact investing in Japan (until Dec. 2023)
- [The Impact Investment Initiative \(Triple I\) for Global Health](#) (Cabinet Secretariat)
An ambitious initiative connecting various stakeholders and mobilizing private capital through impact investment to address global health issues in low- and middle-income countries.
- [Study Group on Ecosystems for Promoting Resolution of Local Social Issues](#) [provisional English title] [in Japanese] (SME Agency)
Discussed and formulated the "[Basic Policy for Promoting Business to Solve Local Challenges](#)," with the aim of creating and fostering Zebra Companies that will play a key role in solving local social issues ("Local Zebra Companies") (until Jan. 2024)

[Social Bond]

- [Working Group on Social Bonds](#) [in Japanese] (FSA)
Discussed to develop the "Social Bond Guidelines" (until May 2022)

[Others]

- [Advisory Panel on New Financing for Development](#) (MOFA)
Discussed how to explore new ways in which Japan's Official Development Assistance (ODA) should be implemented, including how to mobilize private finance by using ODA as a catalyst (until May 2024)

Initiatives on decarbonization

- [Expert Panel on Climate Change](#) (Cabinet Secretariat)
Discussed on climate change in a cross-sectoral manner and consider policy directions to realize a green society (until Oct. 2021)
- [Working Group on Financial Institutions' Efforts towards the Decarbonization of the Economy](#) (FSA)

Discussed measures to facilitate dialogue between financial institutions and companies, including useful points to keep in mind when financial institutions engage in efforts toward decarbonization (until May 2023)

- [Climate Change Risk Industry-Government-Academia Collaboration Network](#) [provisional English title] [in Japanese] (MOE, MEXT, MLIT, FSA, National Institute for Environmental Studies)

Discussed climate change information and risk assessment models to promote climate change adaptation, with companies that support climate change impact assessments and scenario analysis

- [Advisory Council on Scenario Data for Climate Change Risk and Opportunity Assessment](#) [in Japanese] (FSA, MEXT, MAFF, MLIT, MOE)

Discussed challenges and expectations for analyzing future business opportunities and risks by combining various data on business impacts due to climate change (until June 2024)

- [Roundtable on physical risk assessments in climate-related disclosure](#) [provisional English title] [in Japanese] (MLIT)

Discussed risk assessment of physical risks in climate-related disclosure by private companies, particularly flood risk (until Feb. 2023)

- [Asia GX Consortium](#) (FSA)

Discuss transition finance based on cases in Asia, with the aim to form specific methodologies and real cases of transition finance

- [Working Group on Financial Infrastructure for Carbon Credit Transactions](#) [provisional English title] [in Japanese] (FSA)

Discuss carbon credit-related transaction infrastructure and market practices from the viewpoint of improving transparency and soundness of transactions and promoting investor protection.