

Provisional Translation

Expert Panel on Sustainable Finance, FSA  
Fifth Report  
Towards Expanding Investment Opportunities for a Wide Range of Investors

June 30, 2025  
Financial Services Agency  
Expert Panel on Sustainable Finance

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## Introduction

With the adoption of the Sustainable Development Goals (SDGs) and the Paris Agreement, building a sustainable society has become a major global challenge. It is now essential to promote sustainable finance to support the transition to new industrial and social structures and to build a sustainable society.

Since December 2020, under this recognition, the Financial Services Agency's Expert Panel on Sustainable Finance (the "Expert Panel") has compiled measures to promote sustainable finance in its initial report and has subsequently discussed the progress, challenges, and future direction of those measures, issuing four reports to date.

In Japan, various discussions have taken place in different forums to promote sustainable finance, and considerable progress has been made. Given the rapid shifts in sustainable finance, the Expert Panel must now broaden its focus to address specific policy needs and emerging initiatives.

Amid changes in the environment surrounding sustainable finance, including regulatory developments, mainly in Europe and the United States, we reaffirmed the significance of promoting sustainable finance in Japan. A total of five discussions were held since October 2024, on the theme of expanding investment opportunities for a wide range of investors who prefer<sup>1</sup> sustainable investments<sup>2</sup>, an issue that has long been regarded as a challenge. This report summarizes the discussions on initiatives that could provide a wide range of investors with opportunities to make sustainable investments, after enhancing their awareness and understanding of the significance and effects of sustainable finance.

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<sup>1</sup> In this report, the phrase "preference for sustainable investments" is used to mean that investors choose sustainable investments as an investment method or incorporate sustainable investment products as part of their portfolio among various investment methods and asset management targets. It also implies that investors may potentially choose sustainable investment products even if they do not choose these products at present.

On the other hand, it was pointed out that it is important that sustainability is not chosen as a special investment method, but that sustainability is generally taken into account in investment decisions.

<sup>2</sup> In this report, "sustainable investments" is used to encompass investments that take sustainability into account, generally referred to collectively as "sustainable finance," etc. It does not limit the scope of investment to any specific name or investment method, including so-called ESG investment, impact investment, green investment, etc.

The recent meeting of the Expert Panel focused on expanding investment opportunities for a wide range of investors, including individual investors. Therefore, the Expert Panel discussed the possibility of purchasing investment products (stocks, bonds, investment trusts, etc.).

## 1. Significance and Challenges of Promoting Sustainable Finance

### (1) Significance of Promoting Sustainable Finance

The significance and effects of sustainable finance are summarized in the Initial Report as follows<sup>3</sup>.

- Many social and environmental issues, such as climate change—which poses a threat to the sustainability of society—are closely related to economic activities. To facilitate the transition to a new industrial and social structure that addresses these issues, it is essential to further expand private finance. This is why promotion of sustainable finance will be key in building a sustainable society.
- Among others, achieving carbon neutrality by 2050 is one of the most important goals and will require vast amounts of funding; accordingly, the role expected of financial and capital markets is significant.
- By appropriately incorporating positive and negative externalities associated with individual economic activities into financial and capital markets, and by making investments and extending loans that take social and environmental issues into account, sustainable finance is expected to help address those issues and to maintain and strengthen the foundations on which economic activity as a whole depends. This benefits individual economic activities; therefore, sustainable finance initiatives are expected to help improve the risk-return profile of the overall investment and loan portfolio of universal owners and other investors<sup>4</sup>.

Among sustainability-related issues, climate change is currently the most urgent and important. In addition, there are various other social and environmental issues, such as biodiversity, human rights, and human capital. As a result, developments in sustainable finance, including responses to climate change, have been evolving, particularly in Europe and the United States.

In the United States, while climate-related investment has been expanding under the Inflation Reduction Act (IRA), enacted in 2022, some states have moved to require financial institutions active in decarbonization to review their policies. In particular, since the change of government in January 2025, the federal government has introduced

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<sup>3</sup> Report by the Expert Panel on Sustainable Finance (June 2021)  
< <https://www.fsa.go.jp/en/news/2021/20210618/04.pdf> >

<sup>4</sup> For individuals, by participating in the sustainable finance market as individual investors through purchases of investment trusts, etc., such sustainable finance effects can be expected. Furthermore, since individuals are also the ultimate beneficiaries of the assets held by institutional investors such as pension funds and insurance companies as pensioners and policyholders, even if they have not purchased investment trusts, the effects can be achieved indirectly through sustainable investments, including engagement by institutional investors.

a number of policy changes through executive orders, including withdrawal from the Paris Agreement.

In the EU, various sustainability-related regulations, including those concerning decarbonization, have been actively developed. The so-called "Draghi Report", published in September 2024, highlighted the need to balance decarbonization with the enhancement of industrial competitiveness. In November 2024, the European Council adopted the Budapest Declaration, calling on the European Commission to submit a proposal in the first half of 2025 to reduce the disclosure burden by at least 25%. In February 2025, the European Commission published an omnibus bill<sup>5</sup> to revise European Directives, including the Corporate Sustainability Reporting Directive (CSRD), with the aim of reducing the disclosure burden of sustainability reporting and limiting the impact on small businesses. In this way, the EU is moving to simplify its regulations in order to reduce practical burdens while continuing to address sustainability-related issues, including decarbonization.

While such policy changes are taking place in Europe and the United States, Japan is making steady progress toward achieving carbon neutrality by 2050 under the government policy. Since the formulation of the "Basic Policy for Realizing the GX" in February 2023, in order to achieve structural changes in high-emission industries that are deemed difficult to reduce emissions, the GX project has been advanced by implementing the "Pro-Growth Carbon Pricing Initiative"<sup>6</sup> and others to attract 150 trillion yen in public and private sector investment, including 20 trillion yen in support for upfront investments utilizing the Decarbonized Pro-Growth Economic Structure Transition Bonds (GX Economy Transition Bonds), over a period of 10 years from fiscal 2023. The GX initiative aims to achieve stable energy supply, economic growth, and decarbonization simultaneously. In February 2025, the Cabinet approved the "GX2040 Vision," a revised version of the "The Strategy for Promoting Structural Transition toward a Decarbonized and Growing Economic Structure" (GX Promotion Strategy), which had been formulated in July 2023, in order to present a medium- to long-term outlook amid growing uncertainty surrounding the investment environment, including heightened international tensions and the possibility of increased electricity demand resulting from progress in GX and DX. In the same month, the Cabinet revised the Plan

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<sup>5</sup> The bill would reduce disclosure requirements to preserve interoperability with global reporting standards.

<sup>6</sup> The initiative includes supporting upfront investments through GX Economy Transition Bonds, providing incentives for GX investments through carbon pricing such as emissions trading schemes and fossil fuel surcharges, and utilizing new financial methods such as transition finance.

for Global Warming Countermeasures and adopted Japan's new Nationally Determined Contribution (NDC) under the Paris Agreement. Consistent with the global target of 1.5°C set out in the Paris Agreement, the new NDC aims to reduce greenhouse gas emissions by 60% in fiscal 2035 and 73% in fiscal 2040 compared to fiscal 2013 levels. The NDC sets out an ambitious target that is on a direct path toward net-zero emissions by 2050. Recently, some financial institutions in Japan have withdrawn from private-sector financial alliances aimed at achieving net-zero emissions; however, they have also indicated that they remain committed to achieving net-zero emissions in their own lending and investment portfolios.<sup>7</sup>

As such, policy changes in the United States and the regulatory simplification in the EU have also been observed. Japan, which has been working on transition finance and other initiatives to support a realistic decarbonization transition, will maintain its policy of achieving carbon neutrality by 2050 and continue to implement related measures steadily.

As the importance of addressing climate change and other social and environmental issues increases<sup>8</sup>, companies are required to consider the risks and opportunities that social and environmental issues pose to their business activities and not only reduce risks but also take advantage of opportunities in order to increase corporate value over the medium to long term. Accordingly, sustainability-related initiatives have become a central management issue, and investor interest in them is increasing. In line with its mission to enhance public welfare through sustainable corporate and economic growth and stable household asset formation, the JFSA is expected to continue promoting sustainable finance in order to support the autonomous efforts of economic actors to achieve medium- to long-term investment returns and enhancement of corporate value.

## (2) Challenges in Expanding Investment Opportunities for a Wide Range of Investors

The "Plan to Become an Asset Management Nation," formulated in December 2023, highlights the importance of offering varied investment targets, including sustainable investments, in order to expand the supply of growth capital and diversify investment for the long-term growth of Japan's economy and society. In recent years, efforts have

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<sup>7</sup> Net-Zero Banking Alliance (NZBA), etc.

<sup>8</sup> In the "Basic Policies for Economic and Fiscal Management and Reform 2025: Toward a Society Where We Can Feel That "Tomorrow Will Be Better Than Today" (Cabinet Decision on June 13, 2025), it is stated that "in Japan, there are numerous challenges to creating a resilient economic structure, such as addressing frequent natural disasters and preparing for large-scale earthquakes that could cause tremendous damage, maintaining aging infrastructure, and ensuring energy, food, and economic security."

been made to provide financial and economic education to improve financial literacy, so that retail investors can make appropriate investment decisions based on a proper understanding of investment risks. In addition to these efforts, it is important to raise awareness and deepen understanding of sustainable finance among a wide range of investors—including retail investors interested in these assets—to diversify options and provide new investment opportunities.

As there are various purposes and approaches for sustainable investments, it is particularly important to provide opportunities that reflect investors' preferences and strategies. Since December 2023, the "Dialogue on Enhancing Sustainable Investment Products" has been held four times to promote a shared understanding among asset managers, distributors, retail investors, and other relevant parties. The following issues and points of discussion are presented in "Insights from the Dialogue on Enhancing Sustainable Investment Products"<sup>9</sup> which presents future issues and points of contention, the following points are discussed:

- A basic understanding of the significance of sustainable finance is not yet widespread, and the status of initiatives differs among institutional investors, including asset owners. In addition, retail investors in particular may find it difficult to gain a concrete understanding of the nature of such investments and products.
- When expanding investment opportunities, it is important to provide opportunities and information that enable investors to understand concretely the significance and impact of such investments in light of their needs.

In light of these points, it was suggested that the Fourth Report should help readers understand investors' characteristics and intentions, and discuss the fundamental significance of and strategies for sustainable investments, as well as key concepts and practices such as disclosure and dialogue.

In light of the above, the Expert Panel recently discussed ways to expand investment opportunities for a wide range of investors interested in sustainable investments, based on major overseas initiatives relating to sustainable investment products (see Section 2 (1) below), and through the Survey of Sustainable Investments by Individuals and Domestic and Overseas Institutional Investors<sup>10</sup> (see Sections 3 (1) and (2) below).

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<sup>9</sup> FSA Insights from Dialogue on Enhancing Sustainable Investment Products (July 2024)  
< <https://www.fsa.go.jp/singi/dialogue/siryou/20240705-2/02.pdf> >

<sup>10</sup> In addition, in grasping the actual situation regarding individual sustainable investments, this was

## 2 Major initiatives relating to sustainable investment products in Japan and overseas

In Japan and overseas, measures relating to sustainable investments and related products are being implemented to provide investment opportunities aligned with investors' preferences and strategies, while also ensuring investor protection, including the prevention of greenwashing.

### (1) Major overseas initiatives

The International Organization of Securities Commissions (IOSCO) published its final report in November 2021<sup>11</sup>, which aims to improve practices, policies, and procedures, and their disclosures, related to sustainability in asset management. From the perspective of preventing greenwashing, the report recommends that regulators focus on: (i) asset managers' practices, policies, and procedures, and their disclosure<sup>12</sup>; (ii) product information disclosure<sup>13</sup>; (iii) supervision and enforcement; (iv) terminology<sup>14</sup>; and (v) Recommendations are being made on finance and investor education. In particular, the recommendations in (i) and (ii) encourage asset managers to ensure that they take material sustainability risks and opportunities into account in their decision-making processes and to improve the consistency, comparability, and reliability of their disclosures.

In light of recommendation (iv), the CFA Institute, GSIA<sup>15</sup>, and PRI<sup>16</sup> have standardized the definitions of terms related to sustainable investment methods

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carried out taking into account the discussion at the recent expert meeting, where it was pointed out that 'while individual investors are considered to have various investment preferences, those who choose sustainable investment products may also be assuming the goal of securing investment returns.'

<sup>11</sup> IOSCO (International Organization of Securities Commissions) Final Report 'Recommendations on Practices, Policies, Procedures, and Disclosure Related to Sustainability in Asset Management' (November 2021)

<<https://www.iosco.org/library/pubdocs/pdf/IOSCOPD688.pdf>>

<sup>12</sup> Recommendations have been made to: ① formulate and implement practices, policies, and procedures related to important sustainability-related risks and opportunities, and ② consider setting regulatory and supervisory expectations for asset management companies regarding related disclosures.

<sup>13</sup> It has been recommended that, in order to improve product-level disclosure to enhance investors' understanding of ① sustainability-related products and ② significant sustainability-related risks of all products, consideration should be given to clarifying or expanding existing regulatory requirements or guidelines, or, if necessary, formulating new regulatory requirements or guidelines.

<sup>14</sup> There is a recommendation that consideration should be given to encouraging industry stakeholders to establish common terms and definitions related to sustainable finance, including those related to ESG approaches, in order to ensure consistency in the global asset management industry.

<sup>15</sup> Global Sustainable Investment Alliance

<sup>16</sup> Principles for Responsible Investment

(screening, ESG integration, theme investment, stewardship, and impact investment) and have provided guidance on the use of terms related to each method<sup>17</sup>.

Furthermore, in major jurisdictions, regulatory and supervisory frameworks have been developed for the naming, classification, and labeling of sustainable investment products, as well as for product disclosures, according to the extent and purpose of sustainability-related considerations, with a view to improving transparency and preventing greenwashing. The key points<sup>18</sup> are as follows:

① European Union (EU)

In the EU, under the Sustainable Finance Disclosure Regulation (SFDR), which entered into force in March 2021, financial institutions offering Article 8 funds, which promote environmental or social characteristics but do not pursue sustainable investments as their objective, Article 9 funds, which have sustainable investments as their objective, and Article 6 funds, which fall outside those categories, are required to disclose both their policies on sustainability risks and information corresponding to each category.

In a public consultation conducted by the European Commission in 2023, many market participants stated that the SFDR is used not only as a disclosure framework but also as a labeling and marketing tool, and that SFDR-based disclosures are not useful to investors. In June 2024, the European Supervisory Authorities (ESAs) submitted recommendations to the European Commission, including a proposal to introduce clear product categories, such as a category for sustainable transition products. In light of these issues, the European Supervisory Authorities are currently reviewing the SFDR with a view to simplifying it and improving its usability<sup>19</sup>.

In May 2024, the European Securities and Markets Authority (ESMA) published guidelines on fund names that use ESG- or sustainability-related terms. The guidelines stipulate that funds using transition-, social-, governance-, environmental impact-, or sustainability-related terms in their names must invest at least 80 percent of their assets in accordance with environmental or social

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<sup>17</sup> CFA Institute, GSIA, PRI “Definitions for Responsible Investment Approaches” (November 2023) <[https://www.gsi-alliance.org/wp-content/uploads/2023/10/ESG-Terminology-Report\\_Online.pdf](https://www.gsi-alliance.org/wp-content/uploads/2023/10/ESG-Terminology-Report_Online.pdf)>

<sup>18</sup> 26th Expert Panel on Sustainable Finance (December 2024) Materials 1, pages 5–8 <[https://www.fsa.go.jp/singi/sustainable\\_finance/siryuu/20241212/01.pdf](https://www.fsa.go.jp/singi/sustainable_finance/siryuu/20241212/01.pdf)>

<sup>19</sup> The Platform on Sustainable Finance, an advisory body that provides advice to the European Commission, recommended in December 2024 the introduction of three product categories for the Sustainable Transition ESG collection. Additionally, in May 2025, the European Commission conducted a public consultation (Call for evidence) on the SFDR.

characteristics or sustainable investment objectives, and must exclude companies that are excluded from the investment universe under the EU Climate Benchmark Regulation.<sup>20</sup>

## ② The United Kingdom (UK)

In the UK, under the Sustainability Disclosure Requirements (SDR), where one of four labels is used—Sustainability Focus, for investments in environmentally and socially sustainable assets; Sustainability Improvers, for investments in assets with the potential to improve their sustainability over time; Sustainability Impact, for investments intended to deliver a predefined positive and measurable environmental or social impact; and Sustainability Mixed Goals, for investments pursuing two or more of the above objectives—funds are required to meet certain criteria. These include, depending on the label, investing at least 70% of assets in line with the sustainability objective indicated by the label and disclosing relevant KPIs.<sup>21</sup>

## ③ The United States (U.S.)

In the United States, the rules on fund names were revised in December 2023. Under this revision, funds whose names suggest that they consider ESG factors in making investment decisions are generally required to invest at least 80% of their assets in accordance with those factors. However, the revision has not yet taken effect.

In addition, a draft revision to the disclosure rules for funds was published. The draft revision, published in May 2022, would have required funds to disclose how they take ESG factors into account in investment decisions, based on classifications such as Integration Funds, which consider ESG factors alongside financial information, and ESG-Focused Funds, for which ESG factors are an important or key consideration; the latter category includes Impact Funds, which

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<sup>20</sup> In particular, when using terms related to transition, it is required to ensure that there is a clear and measurable pathway for environmental and social transitions; when using terms related to impact, it is required to ensure that the aim is to generate a positive and measurable impact on the environment and society alongside financial returns; and when using terms related to sustainability, it is required to declare that one is making sustainable investments.

<sup>21</sup> It is also required to provide individual investors with access to key information about the sustainability characteristics of products in an easily accessible and understandable manner, so that they can assess whether the product meets their own needs and preferences.

aim to achieve specific impacts. However, the draft revision was withdrawn in June 2025.<sup>22</sup>

#### ④ Singapore

In Singapore, under the Guidelines on Disclosure and Reporting for Retail ESG Funds, which took effect in January 2023, where ESG-related terms are used in a fund name, ESG factors must be taken into account as a significant part of the fund's investment strategy.<sup>23</sup> In addition, ESG factors and investment strategies must be disclosed.<sup>24</sup>

#### ⑤ Hong Kong

In Hong Kong, under the circular on ESG funds, which took effect in January 2022, funds that treat ESG factors as a key component of their investment objectives and strategies are required to disclose the ESG factors and investment strategies reflected in their names. In addition, climate funds are subject to additional disclosure requirements.

### (2) Major initiatives in Japan

In Japan, with regard to sustainable investments by institutional investors, Guideline 1-1 of the Stewardship Code<sup>25</sup> states that investment returns for customers and beneficiaries should be expanded in the medium to long term by encouraging the enhancement of corporate value and sustainable growth of the company concerned through constructive "purposeful dialogue" (engagement) based on consideration of sustainability (medium to long term sustainability including ESG factors) in accordance with the investment strategy. Guideline 1-2 also states that, when institutional investors disclose a clear policy on fulfilling their stewardship responsibilities, they should clearly indicate how they take sustainability issues into account in accordance with their investment strategies.

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<sup>22</sup> From the website of the U.S. Securities and Exchange Commission (SEC)  
<<https://www.sec.gov/rules-regulations/2025/06/s7-17-22#33-11377final>>

<sup>23</sup> As a guideline, it is considered whether at least two-thirds of the investment amount is being invested according to the relevant investment strategy.

<sup>24</sup> In December 2024, the Monetary Authority of Singapore (MAS) published an information note on good examples of disclosures in line with the guidelines.

<sup>25</sup> Financial Services Agency 'Principles for Responsible Institutional Investors <<Japanese Stewardship Code>> ~To promote sustainable growth of companies through investment and dialogue~' (June 2025)  
<<https://www.fsa.go.jp/en/refer/councils/stewardship/20250626/01.pdf>>

In addition, Principle 5 of the Asset Owner Principles<sup>26</sup> stipulates that asset owners should take necessary measures to contribute to the sustainable growth of investee companies. Supplementary Principle 5-2 stipulates that, where appropriate in light of stakeholders' views and investment objectives, asset owners may make sustainable investments that contribute to the sustainable growth of investee companies.

Furthermore, with regard to publicly offered investment trusts for retail investors, based on the results of the survey on publicly offered investment trusts related to ESG in the "Progress Report on Enhancing Asset Management Business 2022"<sup>27</sup>, the Comprehensive Guidelines for Supervision of Financial Instruments Business Operators, etc. (hereinafter referred to as the "Guidelines") were amended in March 2023<sup>28</sup>. The revision defines the scope of ESG investment trusts and sets out specific review items for disclosures concerning ESG-related publicly offered investment trusts and for the development of frameworks by investment trust management companies.<sup>2930</sup>

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<sup>26</sup> Secretariat of New Form of Capitalism Realization Headquarters, Cabinet Secretariat, 'Asset Owner Principles' (August 2024)

<[https://www.cas.go.jp/jp/seisaku/atarashii\\_sihonsyugi/pdf/assetownerprinciplesen.pdf](https://www.cas.go.jp/jp/seisaku/atarashii_sihonsyugi/pdf/assetownerprinciplesen.pdf)>

<sup>27</sup> FSA 'Progress Report on Enhancing Asset Management Business 2022' (May 2022)

<[https://www.fsa.go.jp/en/news/2022/20220527/20220527\\_4.pdf](https://www.fsa.go.jp/en/news/2022/20220527/20220527_4.pdf)>

<sup>28</sup> Response to the FSA's Consultation on the Proposed Amendment of the Comprehensive Supervisory Guidelines for Financial Instruments Business Operators, etc. regarding ESG Investment Trusts (March 2023)

<<https://www.fsa.go.jp/en/news/2023/20230331/20230331.html>>

<sup>29</sup> In addition, in May 2023, the 'Roundtable on ESG in Investment Trusts' established under the Policy Committee of the Investment Trusts Association summarized the basic ideas of asset management companies regarding issues related to ESG-related investments and ESG investment trusts ('Basic Ideas of Asset Management Companies Conducting ESG-Related Investments').

<<https://www.toushin.or.jp/start/14/index.html>>

<sup>30</sup> Additionally, Principle 5 of the Principles for Customer-Oriented Business Conduct [Providing Important Information in an Understandable Manner] states that important information related to the sale or recommendation of financial products and services should be provided in a manner that is easy for customers to understand.

FSA, "Principles for Customer-Oriented Business Conduct" (Revised Edition) (September 2024)

<<https://www.fsa.go.jp/news/r6/20240926/02.pdf>>

### 3 Actual practices in sustainable investments

As mentioned in section 1. As noted in (2) above, we commissioned a survey<sup>31</sup> commissioned by the Financial Services Agency to gauge the state of sustainable investments by individuals and domestic and overseas institutional investors. The results are summarized below.

#### (1) Investment Practices in Sustainability-Related Investments by Individuals

Some survey findings<sup>32</sup> on the factors influencing retail investors' preferences for sustainability-related investments are as follows:

- Retail investors with high financial literacy tend to prefer impact investing
- Environmentally conscious retail investors with a high level of literacy regarding environmental issues and human rights prefer ESG and impact investments

This trend was observed.

Furthermore, a questionnaire survey<sup>33</sup> of 12,000 people was conducted to understand the characteristics of individuals who prefer sustainable investments and their needs regarding the content of information on such investments. The results are summarized below.

#### ① Factors considered when making investment decisions on stocks and investment trusts

Regarding the factors investors consider important when making investment decisions on stocks and investment trusts, the percentages of respondents who answered "very much" or "much," in descending order, were approximately 75% for contributions to medium- to long-term asset building, approximately 73% for risk of loss, approximately 69% for the nature of the company's business, and approximately 65% and 64%, respectively, for the target regions and target assets of investment trusts.<sup>34</sup>

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<sup>31</sup> Handout 3, the 27th meeting of the "Expert Panel on Sustainable Finance" (March 2025)  
<[https://www.fsa.go.jp/singi/sustainable\\_finance/siryoku/20250331/03.pdf](https://www.fsa.go.jp/singi/sustainable_finance/siryoku/20250331/03.pdf)>

<sup>32</sup> Handout 2, the 26th meeting of the "Expert Panel on Sustainable Finance" (December 2024)  
<[https://www.fsa.go.jp/singi/sustainable\\_finance/siryoku/20241212/02.pdf](https://www.fsa.go.jp/singi/sustainable_finance/siryoku/20241212/02.pdf)>

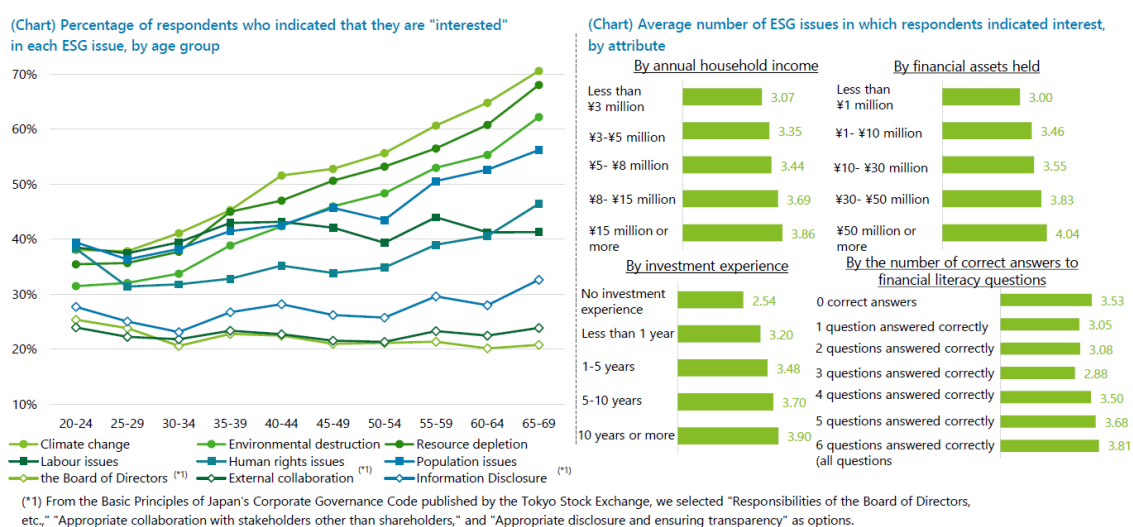
<sup>33</sup> For an overview of the survey, refer to page 4 of Handout 3 from the 27th Expert meeting of the "Expert Panel on Sustainable Finance" (March 2025). Note that the survey respondents include individuals with no investment experience, and those without experience were asked to respond as if they were making an investment.

<sup>34</sup> In response, the proportion of respondents who place importance on companies' efforts regarding social and environmental issues and governance is approximately 54% for governance, 47% for social issues, and 45% for environmental issues. Additionally, the proportion of respondents who emphasize

## ② Interest in sustainability issues

In general, younger people tend to show a relatively higher level of interest in sustainability-related issues. However, among the sustainability-related issues covered in the survey, interest in issues such as climate change, environmental destruction, resource depletion, and population issues tends to increase as people get older and as their household income, financial assets held, and investment experience increase (see Figure 1).

(Figure 1) Interest in sustainability issues



## ③ Awareness, experience, and preferences regarding sustainable investments

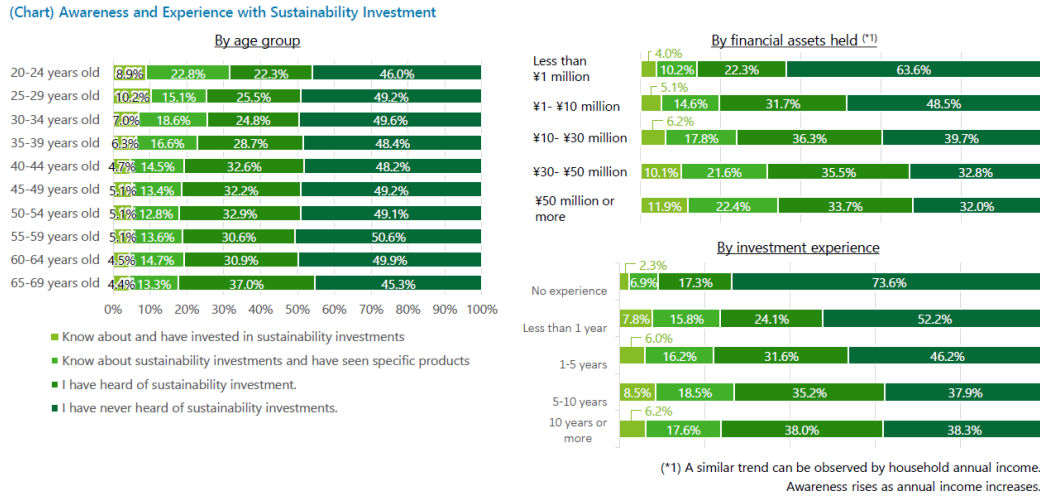
Regarding awareness and experience of sustainable investments, the responses "Never heard of sustainable investments" accounted for nearly half of all age groups.

By age group, respondents aged 20 to 24 had the highest combined percentage of those who answered, "I know about sustainable investments and have actually invested in it" and "I have seen specific products" (approximately 32%). With regard to item ② above, regarding the interest in sustainability-related issues, given that there is a tendency for middle-aged and older people to have a higher level of interest than younger people, it seems that even those who have an interest have relatively few opportunities to encounter sustainable investment products (around 18% of people aged 65-69). In addition, awareness of and

whether social and environmental issues and governance are considered in the investment strategies of mutual funds is approximately 48% for governance, 44% for social issues, and 42% for environmental issues.

experience with sustainable investments increased with the amount of financial assets held (see Figure 2).

(Figure 2) Awareness of and Experience with Sustainable Investments



Regarding respondents' experience of and preferences for ESG investment or impact investment, as well as their experience and preferences regarding ESG investment trusts based on the Guidelines for Supervision, approximately 7% to 8% of respondents said that they have done so, approximately 49% to 52% said that they want to do so but have not actually done so, and approximately 40% to 43% said that they do not want to do so. Of these, the most common reason cited for not wanting to make sustainable investments were "do not know how to make sustainable investments" (approximately 43%). (See Figure 3).

(Figure 3) Experience of and Preferences for Sustainable Investments (1)

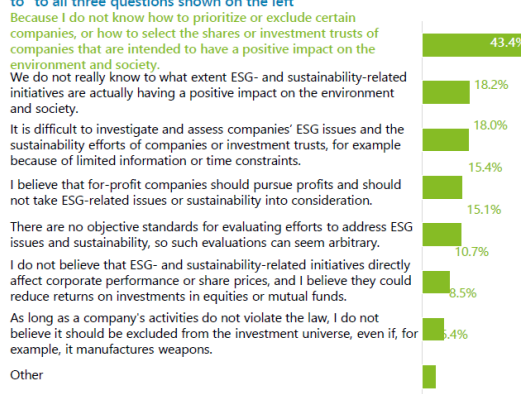
(Chart) Experience with and Preferences for Sustainable Investing in Stocks and Investment Trusts

Questions	Answer	
<b>Experience and Preferences in ESG Investing <sup>(*)</sup></b>		
	I have done it before.	7.7%
Have you considered ESG-related issues and sustainability based on certain standards or processes, or have you done so before? <sup>(**)</sup>	I want to do it, but I haven't done so.	52.0%
	I do not want to do so.	40.3%
<b>Experience and preferences in impact investing</b>		
	I have done it before.	7.4%
Have you ever purchased or are you currently purchasing stocks or investment trusts of companies that aim to have a positive impact on the environment and society by addressing environmental and social issues?	I want to do it, but I haven't done so.	51.6%
	I do not want to do so.	41.0%
<b>Experience and Preferences with ESG Investment Trusts</b>		
	I have done it before.	7.8%
Have you ever purchased an investment trust that includes ESG-related terms in its name or claims to select and evaluate investment destinations with ESG as a key factor? <sup>(**)</sup>	I want to do it, but I haven't done so.	49.1%
	I do not want to do so.	43.1%

(\*) In this report, headings have been added to each question for clarity. However, in the actual survey of individual investors, no headings were included so as not to influence responses.

(\*\*) Although omitted here due to space constraints, the actual survey of individual investors included specific examples of ESG investments and a list of ESG-related terms to make it easier for beginners to respond.

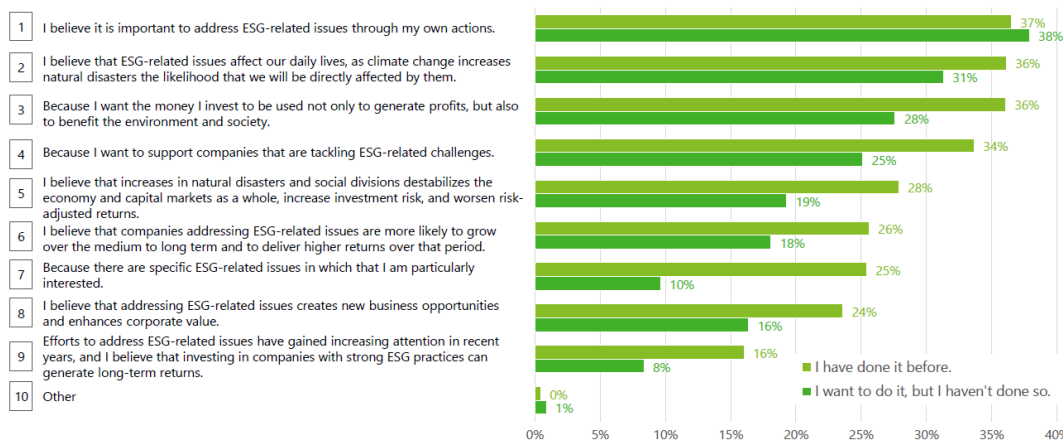
(Chart) Reasons given by respondents who answered "I do not want to" to all three questions shown on the left



As for the reasons respondents gave for making or wanting to make sustainable investments, the most common responses were "I think it is good for me to address ESG-related issues," "I think ESG-related issues affect my life," and "I want the funds I invest to be used for environmental and social benefits, not just for the pursuit of profits," followed by reasons for improving investment returns through sustainability considerations (for example, "I think an increase in natural disasters and the fragmentation of society will worsen risk-adjusted returns," and "I think companies that address ESG-related issues will have high returns in the medium to long term") (See Figure 4).

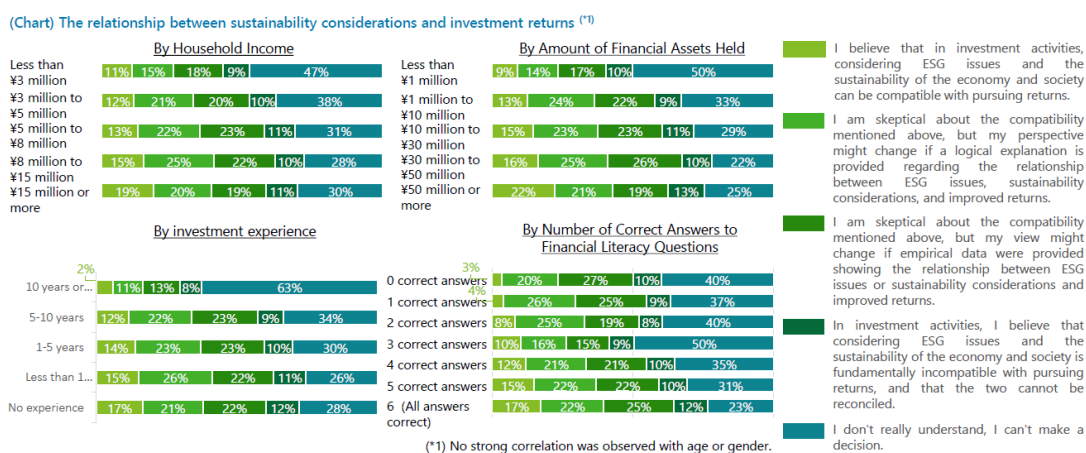
(Figure 4) Experience of and Preferences for Sustainable Investments (2)

(Chart) Reasons for investing in, or wishing to invest in, sustainability investments (multiple answers allowed. The chart below shows the percentage of respondents who selected each option.)



Regarding the relationship between consideration of sustainability and investment returns, approximately 13% of all respondents said that they think it is possible to balance sustainability considerations and investment returns, approximately 41% said that they are skeptical about balancing sustainability considerations at present but may change their mind if logical explanations or data are provided, and approximately 36% said that they are not sure whether or not they can balance sustainability considerations and investment returns. Furthermore, as household income, financial assets, investment experience, and financial literacy increased (see Figure 5), the proportion of respondents who answered, “I think it is possible to achieve sustainable investment returns,” also tended to increase.

(Figure 5) Understanding of the relationship between sustainability considerations and investment returns (1)



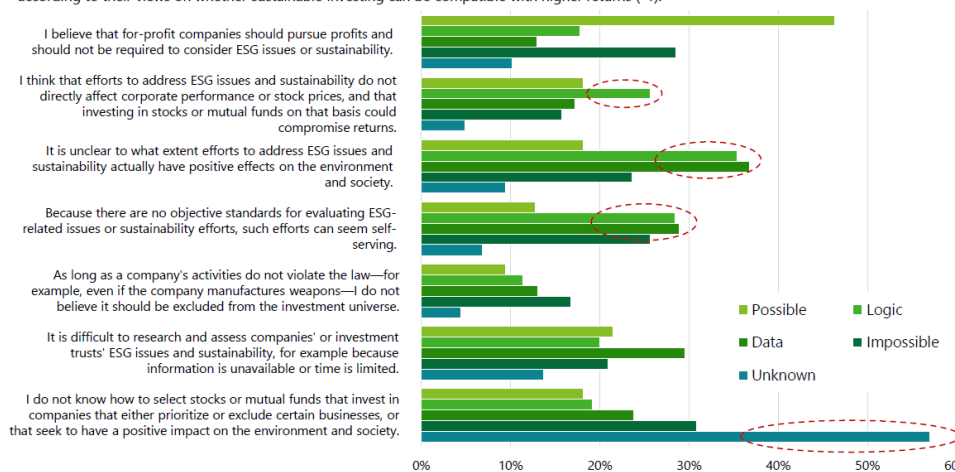
Regarding the relationship between sustainability considerations and investment returns, a relatively high proportion of individuals who answered that they "do not want to invest in sustainability" on the grounds that investment returns will be undermined by sustainability considerations answered that "I am skeptical about the current compatibility of sustainability considerations and investment returns, but if a logical explanation is provided, I may change my mind." Furthermore, among the individuals who answered that they "do not want to engage in sustainable investments" due to doubts about the effectiveness of sustainable investments and its evaluation criteria, a relatively high proportion answered that "If a logical explanation / data is provided, my opinion may change." In addition, among individuals who cited "do not know how to make

sustainable investments" as the reason, a high proportion responded "do not know whether or not it is compatible" (see Figure 6).

(Figure 6) Understanding of the relationship between sustainability considerations and investment returns (2)

(Chart) Reasons for answering, "I do not want to invest in sustainable investments" (multiple answers allowed. The figures in the chart show the percentage of responses for each option)

We asked respondents who said they did not wish to engage in sustainable investing to explain their reasons, and compiled the results according to their views on whether sustainable investing can be compatible with higher returns (\*\*1).

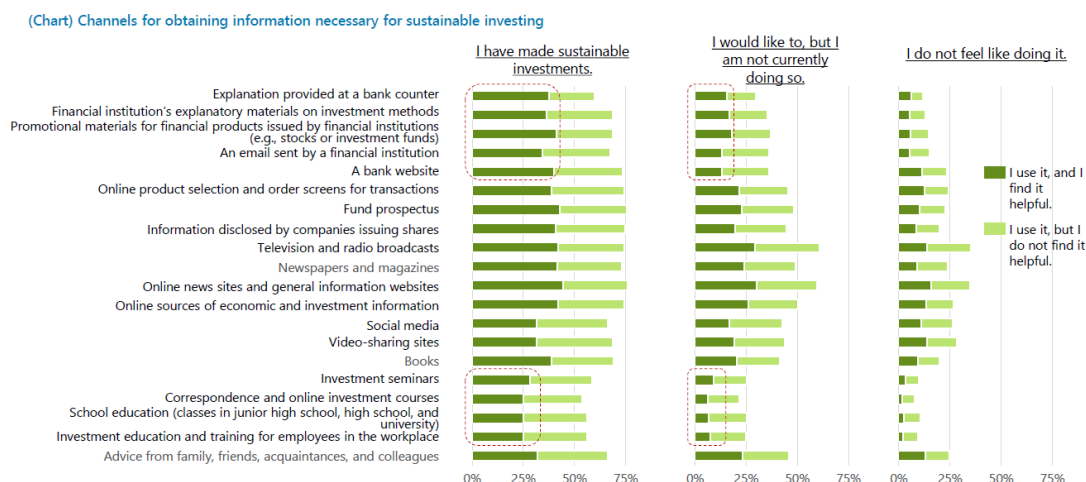


\*\* (1) In this table, the abbreviations are defined as follows: 'Possible' = sustainable investment and higher returns can coexist; 'Logical' = skeptical about such coexistence, but open to changing this view if provided with a logical explanation; 'Data' = skeptical about such coexistence, but open to changing this view if presented with empirical data; 'Impossible' = fundamentally incompatible; 'Unknown' = unsure/cannot judge."

④ Provision of information on sustainable investment products

With regard to the channels used to obtain information necessary for sustainable investing in stocks and investment trusts, individuals with experience in sustainable investing tended to use a wider variety of channels and gather information more broadly than those without such experience. In particular, individuals with no experience relied on information obtained from television, radio, and online media, while those with experience referred to information obtained from explanations provided by financial institutions, investment seminars and correspondence courses, and education at schools and workplaces, which is a higher percentage than among those with no experience (See Figure 7).

(Figure 7) Channels for obtaining information necessary for sustainable investing

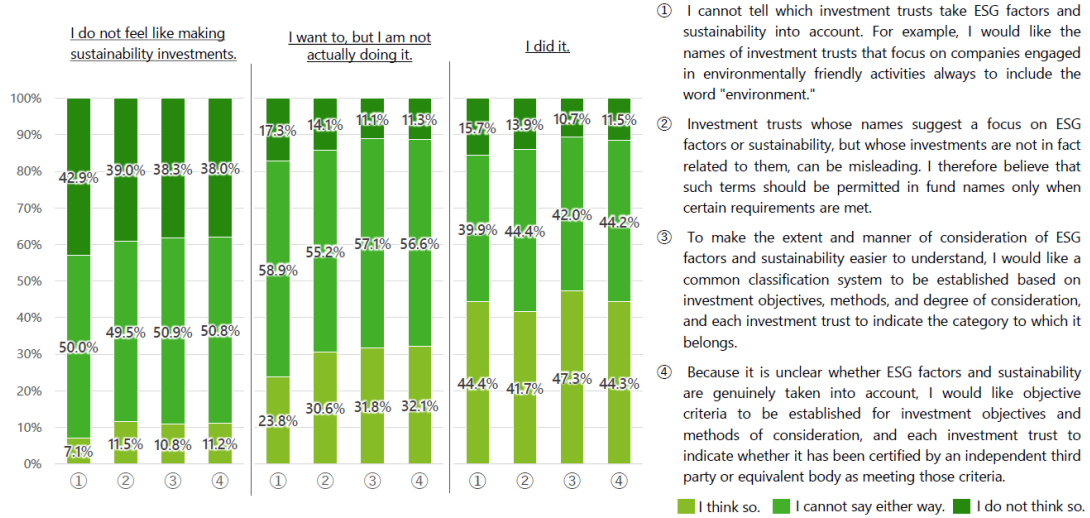


In response to the question<sup>35</sup> of what kind of information provision would increase the attractiveness of stocks and investment trusts under the assumption of sustainable investments, there was no preference regarding the specific content or method of information provision. However, among individuals with experience in sustainable investing and those inexperienced investors who prefer sustainable investments, there was a tendency for the attractiveness of investment products to increase with the provision of additional information. When asked if they have any preference regarding the names, classifications, and labels of investment trusts that take sustainability into account, a slightly higher proportion of those with experience of sustainable investments prefer a common classification according to the purpose and method of investment trusts, but there is no preference regarding any specific name or classification. There was a tendency for higher proportions of both respondents with experience in sustainable investments and those without such experience to prefer names, classifications, and labels that indicate sustainable investments (see Figure 8).

<sup>35</sup> Specifically, we are investigating whether the attractiveness of investment products is enhanced by:  
 - The content of the information provided (① explanations on the relationship between considering sustainability and investment returns, ② explanations regarding the objectives and strategies of sustainable investments in investment trusts, ③ qualitative explanations of the impact through investment, ④ quantitative explanations of the impact through investment),  
 - The method of providing information (⑤ concise materials summarizing the objectives and strategies of sustainable investments in investment trusts, ⑥ a comparable common format regarding the methods of sustainable investments in investment trusts, ⑦ FAQs about sustainable investments, ⑧ information provision according to interest in sustainability-related issues).

(Figure 8) Preferences regarding the names, classifications, and labels of investment trusts that take sustainability into account

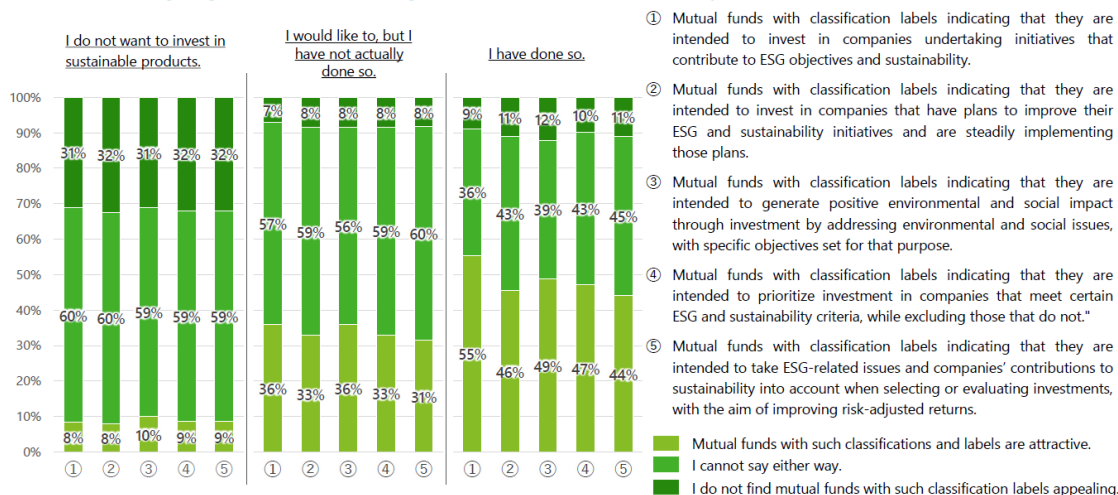
(Chart) Preferences regarding the names, classifications, and labels of investment trusts that incorporate sustainability considerations



Furthermore, regarding what kind of category or label for investment trusts (sustainable transition impact screening / ESG integration) is useful, among those with experience in sustainable investments and those who prefer sustainable investments, the proportion of respondents who think that the category / label of sustainable impact is useful is slightly higher, but there is no preference for a specific category/label. The proportion of respondents who considered sustainable investments useful was higher among those with experience in sustainable investments and those who had never invested in sustainable investments than among other respondents (see Figure 9).

(Figure 9) Preferences regarding the classification and labeling of investment trusts that take sustainability into account

(Chart) Preferences regarding the classification and labeling of investment trusts in terms of sustainability



(2) Actual practices among domestic and foreign institutional investors

Domestic and overseas investors (asset owners and asset management companies) were interviewed about the basic significance and strategy of sustainable investments, as well as key concepts and practices such as disclosure and engagement—to be discussed in the Fourth Report, considering the regulatory and supervisory frameworks in other countries. The outline of the interview is as follows.<sup>36</sup>

① Investment strategy

Many domestic and foreign institutional investors already engaged in sustainable investments recognize<sup>37</sup> that taking sustainability into account is effective in reducing medium- to long-term risks, with the primary purpose of maximizing investment returns. On the other hand, in some cases, the primary purpose is to create medium- to long-term impact, and it has been pointed out that sustainable investments may differ depending on the beneficiaries.

<sup>36</sup> This has been organized based on presentations at the 26th (December 2024) and the 27th (March 2025) of "Expert Panel on Sustainable Finance", as well as hearings conducted with domestic asset owners (four life insurance companies, three corporate pension and university funds), domestic asset management companies (10 companies), overseas asset owners (10 companies located in France, Germany, Switzerland, Norway, the UK, the US, Canada, and Hong Kong), and overseas asset management companies (nine companies located in France, the Netherlands, Belgium, Finland, Switzerland, the UK, and the US).

<sup>37</sup> Regarding sustainability investments, in addition to referring to each country's regulatory and supervisory frameworks and definitions of sustainability investment methods provided by organizations such as PRI and GSIA, there are also cases where companies have established their own unique definitions.

In addition, some domestic asset owners (life insurance companies) already engaged in sustainable investments apply ESG integration across all assets under management. Similarly, some domestic asset management companies already engaged in sustainable investments take sustainability into account for all or most of their assets under management, including assets under in-house management.

By contrast, the ratio of ESG investment trusts subject to the supervisory guidelines accounted for 1.76%<sup>38</sup> of total net assets of publicly offered equity investment trusts as of the end of October 2024.<sup>39</sup>

In addition, while third party certification, third parties, and ESG assessments are used as a basis for investment decisions, some domestic asset management companies noted that third parties are currently only as a reference due to challenges in terms of certainty and comparability.<sup>40</sup>

## ② Engagement

Regarding engagement with investee companies, it was confirmed that institutional investors conduct engagement based on their own key issues (materiality) and encourage them to disclose their investment targets and take measures on sustainability-related issues.

There were cases in which domestic asset owners (life insurance companies) confirmed progress of initiatives toward decarbonization (transition) based on materiality. For example, regarding climate change, they provided evaluation criteria for transition finance and conducted joint engagement.<sup>41</sup> In addition, there were cases in which the engagement team confirmed the sustainable investment policy, management system, investment returns, and social impact creation with the delegated asset management company. Under these circumstances, it has been pointed out that more disclosure by investees on the impact and use of funds, and the effects of sustainable investments would not only contribute to investment decisions

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<sup>38</sup> Page 3 of Handout 4, the 26th meeting of the "Expert Panel on Sustainable Finance" (December 2024)

<[https://www.fsa.go.jp/singi/sustainable\\_finance/siryoku/20241212/04.pdf](https://www.fsa.go.jp/singi/sustainable_finance/siryoku/20241212/04.pdf)>

<sup>39</sup> Regarding the "insights gained from dialogues," it was pointed out that while only about 1% of publicly offered investment trusts in Japan are labeled as "ESG," it is expected that there are many more strategies and products that consider sustainability in their investment approach.

<sup>40</sup> Regarding ESG evaluations and data provision, it is stipulated in the 'Code of Conduct for ESG Evaluation and Data Provision Organizations' (December 2022) that the situation should be continuously monitored and the need for further action should be considered.

<sup>41</sup> Institutional investors engage in dialogue with investee companies in collaboration with other institutional investors. In addition, in order to materialize stewardship activities, the Stewardship Code was revised in June 2025, including measures to promote collaborative engagement.

by asset owners but also make it possible to explain to final beneficiaries, thereby enhancing the credibility of sustainable investments.

At some asset management companies in Japan, specialist teams and analysts conducted engagement focused on sustainability-related issues. In addition, there were cases in which companies were selected based on materiality, and cases in which the progress of engagement was managed. It was pointed out that the results showed that companies whose initiatives had made good progress through engagement had improved investment returns.

Regarding communication with stakeholders, some domestic asset owners pointed out that individuals, as the final beneficiaries, do not have sufficient awareness or understanding of sustainable finance and that there are challenges in explaining the significance and effects. On the other hand, a domestic asset owner (life insurance company) conducted a survey of policyholders to assess their awareness of sustainable investments and their intention to balance the resolution of social issues and profitability in investment and financing. While awareness of sustainable investments is not high, many policyholders responded that they want the company to take social issues.

In addition, some domestic institutional investors pointed out that improving awareness and understanding of sustainable finance remains a challenge, and the Asset Owner Principle will be a major pillar. They also emphasized the importance of enhancing products that balance sustainability considerations and investment returns, and the importance of gatekeepers' judgment.

### ③ Provision of information on sustainable investment products

#### (I) Names, classifications, and labels for sustainable investment products

Regarding the usefulness of names, classifications, and labels of sustainable investment products in investment decisions, overseas institutional investors noted that classifications and labels in the EU SFDR and the UK SDR are useful for retail investors to understand such products better. On the other hand, the following points were raised.<sup>42</sup>

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<sup>42</sup> In addition, it was pointed out that from a sustainability perspective, imposing strict regulations could limit investment targets, and the resulting decline in fund performance could reduce demand for the products, thereby preventing funds from being directed to the field of sustainability. Therefore, it is necessary to consider regulatory approaches based on principles.

- Since it is difficult to conduct due diligence on the reasonableness<sup>43</sup> of the classification of the EU SFDR, etc., institutional investors conduct their own analysis while referring to it.
- The usefulness of names, categories and labels will depend on the market concerns and needs in each country. While investors have a strong need for sustainability, Singapore and Hong Kong are not interested in categories and tend to focus on the performance.

A domestic asset owner (life insurance company) who has already been engaged in sustainable investments stated that it currently makes investment decisions based on the details of products and its own standards<sup>44</sup>, and that it does not attach much importance to classifications and does not think they will contribute to preventing greenwashing<sup>45</sup>.

In addition, some domestic asset management companies pointed out that it would be useful to increase the number of product classifications and labels according to the degree of consideration and whether impact has been generated, with a view to improving the understandability and appealing to retail investors. On the other hand, it was pointed out that Japanese retail investors lack awareness and understanding of sustainable finance, and that including ESG-related terms in product names or introducing ESG-related classifications would not necessarily lead to actual investment.<sup>46</sup>

Furthermore, regarding differences in regulatory and supervisory frameworks in Japan and overseas, some domestic asset management companies pointed out that greater consistency between Japan and overseas in order to reduce transaction costs and improve the understandability. On the other hand, many domestic institutional investors commented that:

- Regulations need to consider the actual situation of needs and initiatives for transition finance in each country and region. Unlike the EU SFDR, Japan does not necessarily need to adopt regulations based on taxonomy.

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<sup>43</sup> Regarding Article 8 funds, it was pointed out that the applicable scope is broad and that there are funds that should be classified under Articles 6 and 9.

<sup>44</sup> It was pointed out that the judgment is made based on whether or not there is a label according to the characteristics of the managed assets, and that so-called SDG bonds such as green bonds are considered sustainability investments if they are labeled.

<sup>45</sup> Asset owners (corporate pension funds) who plan to engage in sustainability investing in the future have also pointed out that the classification of sustainable investment products is helpful.

<sup>46</sup> In addition, some domestic institutional investors pointed out that it would be desirable to clarify the definition of sustainable investments and to introduce more quantitative criteria for ESG investment trusts.

- The introduction of complex classifications and frequent reviews should be avoided, as they increase transaction costs, affect investors due to changes in product names, and make products difficult to understand.

It was pointed out that the regulatory or supervisory framework should be developed based on actual market conditions in Japan.

(ii) Disclosure and explanation of information on sustainable investment products

Regarding the disclosure of information on sustainable investment products, overseas asset management companies raised the following points:

- The disclosure of the EU SFDR is complex and may be difficult for retail investors to understand. It is difficult to assess the UK SDR because it has not been in place for a long time. However, it may be meaningful in terms of explaining technical terms in a way that retail investors can easily understand.
- In the EU, before companies began disclosing sustainability information under the CSRD, asset managers were required to provide product disclosures under the SFDR despite the limited information available to them, raising concerns about the quality.

Domestic asset management companies pointed out that since the revision of the supervisory guidelines, they have expanded disclosure on their prospectuses and websites to indicate that they fall under ESG investment trusts and their investment strategies. Specifically, in addition to disclosing product information such as risk / return, ESG evaluation, and stewardship policy, there were cases where they disclosed the concept of sustainable investments in their sustainability reports. Under these circumstances, it was pointed out that:

- It is desirable to be able to explain ESG integration, such as how taking sustainability into account. However, it is currently difficult, particularly for retail investors.
- Awareness, understanding, and interest of final beneficiaries are important for the spread of sustainable investments. It may be more effective to appeal to a wide range of retail investors what kind of effect (or impact) their investments will have on society based on messages that represent the important characteristics and quantitative KPIs.

In addition, there were cases where domestic asset management companies provided distributors with information on whether their products fall under the category of ESG investment trusts and materials (e.g. sustainability reports) to

explain ESG investment trusts so that appropriate explanations would be made to customers. In some domestic asset management companies, Material Information Sheet<sup>47</sup> was used to indicate that a product was suitable for customers in the target sales, such as those seeking medium- to long-term asset formation, but also those seeking returns while participating in solving social issues through their investments.<sup>48</sup> Under these circumstances, sales strategy for ESG investment trusts is basically left to distributors. However, it has been pointed out that domestic asset management companies do not hear the needs and it is difficult to develop sustainable investment products based on their needs.

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<sup>47</sup> In financial businesses that adopt the principles of customer-oriented operations, the use of an 'Important Information Sheet' is expected as a response to Principle 5: [Providing Important Information in an Easy-to-Understand Manner]. The 'Important Information Sheet' is expected not only to provide concise information to customers but also to facilitate the comparison of various products across different business sectors.

<sup>48</sup> Regarding this, while there was a suggestion that one option could be to structure, disclose, and sell products aimed at individual investors who prefer sustainable investments, there was also a point made that retail investors' preferences are diverse, and it is difficult to identify those who specifically prefer sustainable investments.

#### 4. Suggestions and expectations for expanding investment opportunities for a wide range of investors

In light of 2. and 3. above, the following summarizes initiatives that could help provide sustainable investment opportunities according to the investment preferences of a wide range of investors who prefer such investments, provided that they recognize and understand the significance and effects of sustainable finance.

##### (1) Improving awareness and understanding among investors who prefer sustainable investments

As mentioned in 3.(1) above, some survey results show that retail investors with high financial literacy tend to prefer impact investing, while those with high environmental and human rights literacy and high environmental awareness tend to prefer ESG and impact investing.

In addition, according to the results of the recent questionnaire survey, among the sustainability-related issues asked in the survey, interest in issues such as climate change, environmental destruction, resource depletion, and population issues tends to increase with age, household income, financial assets held, and investment experience. Taking this into account, it is likely that not only young people but also middle-aged and older people and investors with a wealth of investment experience prefer sustainable investments.

Furthermore, while half of all age groups are not aware of sustainable investments, half of those with no such experience answered "yes" when asked whether they would prefer sustainable investments. In addition, for individuals who do not prefer sustainable investments because they do not know how to make such investments, if awareness and understanding of sustainable finance including investment methods advance, their investment preference may change.

If individuals who prefer sustainable investments are provided with information on sustainable finance and their awareness and understanding of it increase, this may lead to a diversification of investment targets and the creation of new investment opportunities.

##### (2) Further initiatives to develop and offer sustainable investment products

As noted in (1) above, when providing information that can expand investment opportunities for individuals who prefer sustainable investments, it is effective to utilize various means such as explanations by financial institutions, investment seminars,

correspondence courses, and education at schools and workplaces, taking into account which channels are suitable for individuals with and without experience in sustainable investments.<sup>49</sup> In particular, it was pointed out that raising awareness and understanding of sustainable finance through financial and economic education is important for these individuals. In addition, it is important to promote initiatives that help increase awareness and understanding of the development and provision of sustainable investment products.<sup>50</sup>

In interviews with overseas institutional investors in 3.(2) above, it was pointed out that regulations in the EU and the UK on the names, classifications, and labels of sustainable investment products are useful for retail investors understand such products and in explaining the products to them. On the other hand, it was pointed out that the usefulness of the regulations depends on the level of awareness and understanding of sustainable finance and the need for sustainable investment products.<sup>51</sup>

In Japan, based on the findings described in 3.(1) above, a common classification for investment trusts is helpful to some extent for those who have experience in sustainable investments when selecting products. On the other hand, as noted in 3.(2) above, retail investors do not have sufficient awareness and understanding of sustainable finance, and the introduction of the classification does not necessarily lead to investment by retail investors. It was also pointed out that Japan should be taken into account.

In these circumstances, asset management companies have sought to enhance disclosures on ESG investment trusts since the revision of the Guidelines in order to improve retail investors' understanding of products. While information on ESG investment trusts appears to have increased as described above, the results indicate that the percentage of those who have been exposed to sustainable investment products is not necessarily high, even though they tend to have a strong interest in sustainability-related issues.

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<sup>49</sup> There was also a point made that the way information is provided to the media, which serves as a channel for information for a wide range of individuals, is important.

<sup>50</sup> Regarding the improvement of individual investors' understanding, there was also an indication that it might be more practical to provide content and a tangible sense of experience through sustainable investment products. Additionally, some survey results suggested that there might be room for improvement in the way prospectuses describe sustainable investment methods, from the perspective of enhancing individual investors' understanding.

Handout 2, the 28th meeting of the "Expert Panel on Sustainable Finance" (May 2025), <[https://www.fsa.go.jp/singi/sustainable\\_finance/siryoku/20250527/02.pdf](https://www.fsa.go.jp/singi/sustainable_finance/siryoku/20250527/02.pdf)>

<sup>51</sup> In addition, it was suggested that when expanding disclosures according to classifications and other factors, it is important to ensure the reliability, transparency, and comparability of ESG evaluations and data.

Furthermore, the findings described in 3.(1) above suggest that those with experience in sustainable investments and those who prefer such investment tend to invest or prefer to invest, mainly because they believe that addressing ESG-related issues, and that those who do not prefer such investment because it undermines investment returns may change their views if logical explanations and data are provided.

Accordingly, in order to provide investment opportunities that reflect investors' preferences, particularly for individuals who have no experience in sustainable investments but may have an interest in it,<sup>52</sup> in addition to explaining the investment methods described in (1) above, it may be effective to devise explanations according to the degree to which investment contribute to solving sustainability-related issues and impacts on medium- to long-term investment returns. For example, the following points can be considered:

- In cases where greater emphasis is placed on contributing to the resolution of sustainability-related issues, sustainable investments can create medium- to long-term impacts, which in turn can lead to the realization of a sustainable society.
- In cases where greater emphasis is placed on the impact on medium- to long-term investment returns, sustainable investments may contribute to achieving medium- to long-term investment returns, supported by logical explanations and data.<sup>53</sup>

Based on the above, we believe it is important to enhance awareness and understanding of sustainable finance through progress in the development and provision of sustainable investment products. Furthermore, it may be considered to examine the classification of sustainable investment products, including ESG investment trusts, in the future, taking into account progress in efforts to improve awareness and understanding as well as trends in regulatory and supervisory frameworks overseas.<sup>54,55</sup>

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<sup>52</sup> Given the varying risk tolerances among individual investors, it has been suggested that offering deposit products that allocate funds to environmental improvement projects could be a viable option for risk-averse individuals.

<sup>53</sup> There were indications that explanations of the logic showing how addressing sustainability issues can enhance corporate value, the preparation of data and indicators necessary for measuring and managing impact, and the presentation of data such as the fact that companies with high ESG ratings have higher price-to-earnings ratios, are desirable.

<sup>54</sup> Regarding the scope of ESG investment trusts, while including all of sustainable investments could weaken the discipline, being too strict would limit the range of investment products. Although there is the issue of how to consider ESG integration, it was pointed out that, as in the U.S., it may be more appropriate for Japan to first broadly classify ESG-Focused Funds and Impact Funds and, through education, improve literacy, considering measures in a gradual manner that fits the actual situation in Japan.

<sup>55</sup> As for sustainable finance, it was pointed out that since the focus of themes changes rapidly, it should be based on principles.

Some ESG investment trusts are already able to invest through NISA (Nippon Individual Savings Account, Regular Savings Investment Account or Growth Investment Account, and it has been pointed out that providing investment opportunities through this scheme may be effective.

In addition, if individuals' awareness and understanding of sustainable finance deepen, asset owners are also increasingly facing requests from stakeholders that they want to invest in sustainability, making it easier for them to engage in sustainable investments. As an opportunity to consider this issue, interviews with domestic institutional investors in 3.(2) above indicated that the Asset Owner Principle would be a major axis. Going forward, alongside efforts to improve the awareness and understanding, asset owners will consider whether to make sustainable investments based on the investment objectives, while conducting reviews based on the Asset Owner Principle.

## Conclusion

By returning to and reaffirming the significance of promoting sustainable finance, as discussed by the Expert Panel, this report seeks to convey the importance of promoting sustainable finance in order to realize medium- to long-term investment returns and enhance corporate value through continued collaboration between the public and private sectors.

We also hope that related parties will implement initiatives based on the suggestions in this report, thereby diversifying investment targets and providing new investment opportunities for a wide range of investors, including retail investors who favor sustainable investments.

As stated in the Third Report of the Expert Panel on Sustainable Finance in December 2020, "the Expert Panel has played a role in gaining a bird's-eye view of trends related to sustainable finance," it was meaningful for the Expert Panel comprehensively examined the various issues surrounding sustainable finance and discussed them at the dawn of sustainable finance.

By continuing these efforts, it can be said that the foundation and policy framework to systematically grasp the various issues surrounding sustainable finance have been established to a certain extent. It is expected that the JFSA and other relevant ministries and agencies will appropriately address specific policy issues under this policy framework. Going forward, it will be important for the Expert Panel to engage in broad and fundamental discussions that reaffirm the significance of promoting sustainable finance, taking into account the progress of each measure and developments in Japan and abroad, and to issue timely messages in order to maintain momentum for sustainable finance.