

Japan Sustainable Finance Policy Update December 2020 – February 2021

Maiko Morishita | Naoki Mori | Noriko Shimizu

Finance Taskforce, IGES

SUMMARY

This IGES Issue Brief is an update of policy developments related to sustainable finance in Japan between December 2020 and February 2021¹.

Key economic and government level policy developments likely to influence and frame the development of national sustainable finance initiatives include the 'Green Growth Strategy through Achieving Carbon Neutrality (Green Growth Strategy)' announced by the Ministry of Economy, Trade and Industry (METI) in December 2020 and the establishment of the 'National / Regional De-carbonization Realization Committee (De-carbonization Committee)' established by the Cabinet Office, also in December 2020.

The Green Growth Strategy highlights the importance of finance in supporting innovation, and indicates cross-ministerial work on developing principles for transition finance and a roadmap for hard-to-abate sectors. The strategy also mentions plans to develop guidelines for social bonds, and an intention to lead international discussions on transition and taxonomies. The De-carbonization Committee was set up to formulate a 'Regional De-carbonization Roadmap' in cooperation with the national and local governments, mentioning regional financial institutions as key players.

New initiatives include the launch of the 'Taskforce on Preparation of the Environment for Transition Finance,' by METI, the Financial Services Agency (FSA) and the Ministry of the Environment (MOE). This Taskforce aims to establish principles on transition finance by April 2021. Additionally, an 'Expert Panel on Sustainable Finance,' was established by the FSA. The Panel acknowledges that the government's priority is to realise a 'virtuous cycle between the economy and environment,' and will discuss emerging issues and ways forward for sustainable finance.

¹ For policy developments prior to this period, please refer to Section 2 of the [IGES Policy Report 'Japan EU Comparative Analysis on Sustainable Finance Policy' \(Maiko Morishita et al., 2020\)](#)

1 HIGHLIGHTS of Japan Sustainable Finance Related Developments

- 1.1** METI announced its 'Green Growth Strategy through Achieving Carbon Neutrality' on 25 December 2020. On finance, the following work would be undertaken through cross-ministerial corporation and would be reflected in updates to the Green Growth Strategy in spring 2021:
- *Clarifying the importance of finance to support innovation,*
 - *developing principles for transition finance and a roadmap for hard to abate sectors,*
 - *developing a framework for long-term financing and a performance linked interest subsidy program,*
 - *expanding areas for the ongoing 'Zero Emissions Challenge' and to create a platform for corporate – investor communication,*
 - *establishing the 'Green Investment Fund' by DBJ,*
 - *clarifying expectations around TCFD,*
 - *ensuring cooperation between financial institutions (including public finance) to support green growth strategy,*
 - *stimulating the corporate bonds market,*
 - *developing guidelines for social bonds,*
 - *and leading international discussions on transition and taxonomies.*
- 1.2** METI, FSA and MOE launched and held the first meeting of the Taskforce on Preparation of the Environment for Transition Finance, aiming to establish principles on transition finance by April 2021.
- 1.3** The Positive Impact Finance Taskforce (established under the ESG High Level Panel and MOE) continued its work on developing an 'Impact Assessment Guide.' The 5th meeting debated the draft 'Impact Assessment Guide.'
- 1.4** FSA established an 'Expert Panel on Sustainable Finance' and held three meetings. The first meeting discussed climate change and finance, the second meeting discussed information disclosure, and the third meeting discussed investment - ESG data - transition finance.
- 1.5** FSA continued to hold study sessions on impact investing in cooperation with the Global Steering Group for Impact Investment (GSG). The topic of the fourth study session was impact assessment and measurement.
- 1.6** The Cabinet Office established the 'National / Regional De-carbonization Realization Committee.' The objective of the Committee is to formulate a 'Regional De-carbonization Roadmap,' a process to realise a decarbonised, sustainable and vibrant community by 2050, in cooperation with the national and local governments. The Roadmap by the Committee is scheduled be published by June 2021 at the latest. MOE will allocate a budget of USD 200 million for 2022 and aims to mobilise ESG finance from the private sector.
- 1.7** Green Bonds: New issuance in this period includes:



Issuer	Sector	Month/Year	Amount	Use of Proceeds
Hudson Solar Japan 1/2	Energy	January 2021	JPY 6.3bn	Solar power generation facilities (refinancing)
Canadian Solar Infrastructure Fund	Energy	January 2021	JPY 3.8bn	Solar power generation facilities (refinancing)
Electric Power Development (J-Power)	Energy	January 2021	JPY 20bn	Renewables (water, wind, geothermal) development, construction, refurbishment and management
Okuibuki Kanko	Energy Tourism	December 2020	JPY150mn	Investment in hydropower plant
ENEOS Holdings	Energy	December 2020	JPY 15bn	Refinancing biomass power plant of subsidiary
NEXCO CENTRAL	Transport (Highway)	December 2020	USD 400mn	Climate resilient improvements and new infrastructure (climate adaptation)
Tokyo Gas	Energy	December 2020	JPY 10bn	Renewable energy business

1.8 Sustainability Linked Loans: New borrowing in this period includes:

Borrower	Sector	Month/Year	Amount	Sustainability Performance Targets
GLP Japan	Logistics	February 2021	USD 658mn	Sustainalytics ESG rating
NYK Line	Transport (Shipping)	February 2021	USD 50mn	Maintaining CDP A List
T'STILE	Construction	February 2021	JPY 5.3bn	Number of Zero Emissions Houses (ZEH) constructed, % of construction mix waste discharged
Japan Real Estate Investment Corporation	REIT	January 2021	JPY 5bn	CO2 emissions, number of BELS ZEB certified buildings
Mitsukoshi Isetan Holdings	Retail	January 2021	JPY 5bn	Maintaining / improving CDP score
Mitsubishi Chemical Holdings	Pharma	January 2021	JPY 30bn	Measureable targets regarding chemical cycle (carbon recycling) business
Fuyo Lease Group	Lease	December 2020	JPY 5bn	Number of Business Process Outsourcing (BPO) cases, transaction amount regarding "Support Program for Fuyo Renewable Energy 100 Declaration" and "Fuyo Zero Carbon City Support Program"

1.9 MOE held the 2nd ESG Finance Awards Japan on 24 February 2021. Gold prize recipients included BNP Paribas Asset Management, Mizuho Financial Group, Shiga Bank, Tokyo Tatemono, Bloomberg LP, and Kirin Holdings.

2 TIMELINE of Policy Developments

Section 2 provides policy developments and relevant sources at a glance and in chronological order. The links direct to English material where available, and to Japanese sites in the absence of English material. '(J)' indicates material in Japanese.

Date	Relevant Agency	Policy Development	Reference to HIGHLIGHTS (Section 1)	Reference to OVERVIEW (Section 3)
25 December 2020	FSA	Establishment of the 'Expert Panel on Sustainable Finance' press release / panel website (J)	(1.4)	(i)
25 December 2020	METI	Announcement of the ' Green Growth Strategy Through Achieving Carbon Neutrality in 2050 '	(1.1)	-
25 December 2020	METI, FSA, MOE	Establishment of the 'Taskforce on Preparation of the Environment for Transition Finance' announced press release / taskforce website (J)	(1.2)	-
25 December 2020	Cabinet Office, MIC ² , MOE	Establishment of the 'National / Regional De-carbonization Realization Committee' and the 1 st Meeting of the Committee committee website (J) / meeting records (J)	(1.6)	(viii)
21 January 2021	FSA	1 st Meeting of the 'Expert Panel on Sustainable Finance' meeting records (J) / materials (J)	(1.4)	(ii)
27 January 2021	METI, FSA, MOE	1 st Meeting of the Taskforce on Preparation of the Environment for Transition Finance press release / meeting records (J)	(1.2)	(v)
28 January 2021	MOE	5 th Meeting of the Positive Impact Finance Taskforce (under the ESG High Level Panel) meeting records (J) / materials (J)	(1.3)	(vi)
29 January 2021	FSA, GSG ³	4 th Study Session on Impact Investing overview & materials (J)	(1.5)	(vii)
10 February 2021	FSA	2 nd Meeting of the 'Expert Panel on Sustainable Finance' meeting records (J) / materials (J)	(1.4)	(iii)
12 February 2021	DBJ	Establishment of the Green Investment Fund press release (J)	-	-
18 February 2021	FSA	3 rd Meeting of the 'Expert Panel on Sustainable Finance' meeting records (J) / materials (J)	(1.4)	(iv)
24 February 2021	MOE	2 nd ESG Finance Awards Japan recipients (J)	(1.9)	-

² Ministry of Internal Affairs and Communications

³ The Global Steering Group for Impact Investment

3 OVERVIEW of Key Meetings and Documents

Section 3 provides a supplementary overview of key meeting records and documents mentioned in this update, for those only available in Japanese. Regarding documents, the type of document follows the headlines in parenthesis (i.e. (Press Release)).

(i) Establishment of the Expert Panel on Sustainable Finance (Press Release)

- A positive cycle for the economy and environment needs to be created in order to realise carbon neutrality by 2050. Financial institutions and financial capital markets must adequately function in order for domestic / global finance to be deployed and to be invested in companies with the technology and potential. The Expert Panel on Sustainable Finance will be established to address such matters.
- The Panel will also establish a process to facilitate the production of practical guidance for social bonds.

(ii) 1st Meeting of the Expert Panel on Sustainable Finance

- Panel to discuss the general policy direction in regards to sustainable finance.
- Presentation 1: (Hiro Mizuno, UN Special Envoy on Innovative Finance and Sustainable Investments United Nations).
 - Prime Minister Suga made an eleventh-hour declaration committing Japan to carbon neutrality by 2050, indicating a change in overall mindset.
 - With the US returning to the Paris Agreement, the rules of the game are now globally agreed. US speed of initiatives is set to increase exponentially.
 - The world is now facing a once-in-a-century industrial revolution. The finance sector needs to take on the challenge as it did during the Meiji Restoration (1868) and or Post-WWII reconstruction (1945).
 - For ESG criteria, environmental aspects must be underpinned by governance, as does the 'Task Force on Climate-related Financial Disclosures (TCFD)' reporting. The establishment of a Japanese taxonomy would be difficult because 1) global investors will not use it, and 2) Japan does not have a track record of setting global norms, so discussion should focus on how to make use of standards.
 - The EU has made all out efforts to create a taxonomy for the purpose of avoiding green washing, and thus has moved on from the discussion of transition. Given its carbon heavy industry, Japan sees an imperative in defining transition, which could be done in a way that complements the EU taxonomy.
 - Japan should take up the issue of Just Transition.
 - Japan should focus on creating actual products. Japan's bond market is dominated by sovereigns. If there is no green sovereign bond, it defeats the purpose of discussing green bonds.
 - Discussions always focus on 2050, but urgent and immediate action is required.
- Presentation 2: (Yukari Takamura, Tokyo University Professor)
 - This presentation included information on international and national developments on climate initiatives.
 - Some points that the Panel could debate include, 1) disclosure, 2) risk assessment, 3) mobilisation (transition, taxonomy, etc.), 4) the role of regulatory agencies (FSA), 4) circular economy, natural capital, regional finance.

(iii) 2nd Meeting of the Expert Panel on Sustainable Finance

- Introduction by Secretariat (Takeshi Mizuguchi, Takasaki City University of Economics)
 - Discussions should include immediate actions by the financial sector, as well as future actions for 2030 or 2050, aiming for net zero by 2050. Other environmental and social issues should also be discussed. The Panel's final output will give recommendations, including policy direction and a message for the public and for the FSA.
 - Specific themes have been set for meetings. The second meeting will discuss disclosure, the third will discuss providing investment opportunities, and the fourth will discuss financial institutions.
 - Sustainable finance should be understood as the consideration of ESG factors in financial decision-making, and will improve returns and risk in the mid-long term. Mitigating negative externalities will address social and environmental challenges, and will protect the basis for economic activity.
- Presentation 1: Disclosure (Eiichiro Adachi, Japan Research Institute)
- Presentation 2: Company Reporting (Jyoji Iguchi, Nissei Asset Management)
- Presentation 3: Climate-related Corporate Disclosure (Emi Onozuka, Japan Catalyst, Inc.)
- Presentation 4: TCFD for Corporates (Hiroyuki Tezuka, JFE Steel)
- Discussion: Members debated issues concerning disclosure, including the need for (stronger) regulatory measures, where and how to disclose data, and the pros and cons of standardization.

(iv) 3rd Meeting of the Expert Panel on Sustainable Finance

- Presentation 1: Providing Investment Opportunities through Financial Capital Markets (Ken Shibusawa, Commons Asset Management)
 - This focused on the importance of creating long-term stock, on SDGs Impact, on impact weighted account initiatives.
- Presentation 2: ESG Data for Furthering Sustainable Investment (Arisa Kishigami, Chronos Sustainability Ltd.)
 - ESG ratings agencies need to be notified of investor needs, two visible challenges are inconsistencies in how companies score and conflict of interest, the issue of where and how to access ESG data, focusing more on opportunity rather than just risk.
- Presentation 3: Transition Finance (Reiko Hayashi, BofA Securities)
 - Highlights included information on the ICMA Transition Finance Handbook and Japan's initiatives.
- Presentation 4: Sustainable Finance and the Securities Industry (Keiko Tashiro, Daiwa Securities)
 - This looked at initiatives by the securities industry and challenges as identified by market stakeholders.
- Discussion: Members debated issues regarding bank capital to assets ratio, challenges regarding ESG data and ratings (agencies), current discussions and ways forward on transition finance and impact.

(v) 1st Meeting of the Taskforce on Preparation of the Environment for Transition Finance

- Presentation 1: ICMA Transition Finance Handbook (Reiko Hayashi, Deputy President, BofA Securities / Board Member, ICMA)
 - Information was presented on the ICMA Climate Transition Finance Handbook, and looked at discussions throughout the process by the working group and board.
- Presentation 2: Basic Principles on Transition Finance draft (presentation material)
 - This looked at the structure of the Basic Principles (1) purpose and direction and (2) table of contents.

- There was a definition of transition finance (1) ICMA Handbook (2) Japan's Basic Principles.
- Core elements of the Basic Principles were introduced (1) issuer's climate transition strategy and governance, (2) environmental materiality in the business model, (3) science based climate transition strategy, and (4) transparency in implementation.
- Discussion: The taskforce discussed the proposed structure of the Basic Principles, definition of transition finance (applicability of Basic Principles), elements to include in addition to those included in the ICMA Handbook (i.e. governance, TCFD and industry roadmaps (to be created by METI in a parallel process)).

(vi) 5th Meeting of the Positive Impact Finance Taskforce

- Presentation: Green Impact Assessment Guide draft ([draft](#))
- Discussion: The Taskforce discussed the structure and scope of the Guide (including any social impacts, and the need for further clarification of purpose), highlighting management in addition to measurement, the specifics of assessing impact including the difference between output/outcome KPIs, and how to bring in third party reviews.

(vii) 4th Study Session on Impact Investing

- The Session focused on impact measurement and management for private equity and start-ups.
- Presentation 1: Triodos Food Transition Fund (Fumi Kanno, SIIF)
- Presentation 2: Japan's Impact Investment 'Hataraku' Fund (Chunmei Huang, Shinsei Corporate Investment)
- Presentation 3: Japan's Impact Investment Daichi Life Impact Investment (Masashi Kataoka, Daiichi Life)
- Presentation 4: Impact Investment from an Entrepreneur Perspective (Naoto Hoshi, Unifa Co. Ltd.)
- Panel Discussion: Panelists presented examples of how impact measurement & management is being conducted at specific companies. Panelists also discussed how to increase impact investment, expected roles for the government, and how to exit.

(viii) 1st Meeting of the National / Regional De-carbonization Realization Committee

- Presentation by Minister of the Environment, Shinjiro Koizumi, detailing the purpose of the Regional De-carbonization Roadmap
 - Many countries are committed to becoming carbon neutral by 2050. In Japan, many municipalities have committed to zero carbon by 2050 but are still reliant on fossil fuels. Some 90% of municipalities have an energy deficit. However, there is huge renewables potential in the regions, and it is possible to attain zero carbon while overturning the deficit. This Committee will draft a 'Regional De-carbonization Roadmap'.
 - The Roadmap will address 1) local production and consumption of energy and resources, 2) housing, 3) regional transport and city planning, 4) buildings and facilities, including public facilities, 5) public health related infrastructure (water and waste), 6) agriculture, fisheries, satoyama and satoumi, 7) workstyle and civil participation, and 8) cross functional foundations including digital transformation and finance.
 - The initial five years will be the concentration phase, with a focus on measures possible with existing technology, creating model cases to be replicated throughout Japan.

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- Responses and presentations from the ministers of MIC, Regional Revitalization⁴, MAFF⁵, METI, MLIT⁶
 - Presentations from Municipalities (Tsunan Town in Niigata Prefecture, Ohno City in Fukui Prefecture, Nagano Prefecture, Karumai Town in Iwate Prefecture, Yokohama City in Kanagawa Prefecture, and Ichiki City in Nagasaki Prefecture)
 - The next step will be to conduct hearings with regional stakeholders on de-carbonization, and then two Committee meetings will be held between April and June 2021 to draft the Roadmap.

⁴ Minister of State for the Promotion of Overcoming Population Decline and Vitalizing Local Economy in Japan

⁵ Ministry of Agriculture, Forestry and Fisheries

⁶ Ministry of Land, Infrastructure, Transport and Tourism

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IGES (Institute for Global Environmental Strategies)

2108-11, Kamiyamaguchi, Hayama, Kanagawa, 240-0115, Japan

Tel: +81-46-855-3709

Email: iges@iges.or.jp

URL: <http://www.iges.or.jp>

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