IGES Policy Report

Japan EU Comparative Analysis on Sustainable Finance Policy

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Abbreviations and Acronyms

CAO	Cabinet Office, Japan
CMU	Capital Market Union
DNSH	Do No Significant Harm
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EFRAG	European Financial Reporting Authority Group
EIB	European Investment Bank
EIOPA	European Insurance and Occupational Pensions Authority
ESG	Environment, Social, Governance
ESMA	European Securities Markets Authority
EU	European Union
EU SFAP	EU Sustainable Finance Action Plan
FSA	Financial Services Agency, Japan
GDP	Gross Domestic Product
GHG	greenhouse gas
GPIF	Government Pension Investment Fund
HLEG	High-Level Expert Group on Sustainable Finance
ICMA	International Capital Market Association
IDD	Insurance Distribution Directive
IFRS	International Financial Reporting Standard
IORP	Institutions for Occupational Retirement Provisions
LCBR	Low Carbon Benchmark Regulation
LTS	Long Term Strategy
METI	Ministry of Economy, Trade and Industry, Japan
MFF	Multiannual Financial Framework
MHLW	Ministry of Health, Labour and Welfare, Japan
MiFID	Markets in Financial Instruments Directive
MOE	Ministry of the Environment, Japan
NDCs	Nationally Determined Contributions
NFI	Non-Financial Information
NFRD	Non-Financial Reporting Directive
NGFS	Network for Greening the Financial System
NGO	non-governmental organisations

OECD	Organisation for Economic Co-operation and Development
PRI	Principles for Responsible Investment
PRIIPS	Packaged Retail Investment and Insurance-Based Products
SDGs	Sustainable Development Goals
SMEs	Small and Medium Enterprises
TCFD	Taskforce on Climate-related Financial Disclosures
TEG	Technical Expert Group
UNEP	United Nations Environment Programme
UNEP FI	UNEP Finance Initiative
UNFCCC	United Nations Framework Convention on Climate Change

1. Introduction

Purpose and Foreword

In the context of the current global surge of interest on 'sustainable finance,' this report presents the findings of a study comparing the policy landscapes covering such issues in Japan and in the EU. The objective of the report is to provide an overview of, and identify the key characteristics deployed in each of these two jurisdictions, and then to analyse the similarities and differences. While Japan and the EU are two regions where governments have enthusiastically promoted sustainable finance, they have taken different strategies and pathways to approach sustainable finance. This study intends to contribute to the current debate on sustainable finance by contributing further to a better understanding of existing sustainable finance policy in Japan and the EU.

Context

The sustainability challenges faced by the world require imminent and substantive action. The scale of funding required to achieve sustainability objectives, along with insufficient public finance, has been one reason why private finance is now widely recognised as having a role to play (Chenet, Zamarioli, Kretschmer, & Narvaez, 2019; Schumacher, Chenet, Volz, & Schumacher, 2020; UNEP Inquiry, 2018). Efforts have been made in recent years to align financial systems with sustainable development and to promote sustainable finance (Zorlu, 2018). However, progress toward achieving globally-agreed sustainability objectives indicates that we must accelerate and amplify our efforts. Five years since the adoption of the 2030 Agenda, not only has there still not been sufficient progress to deliver on the Sustainable Development Goals (SDGs), but the world has actually backtracked on a number of goals (Independent Group of Scientists appointed by the Secretary-General, 2019). The Nationally Determined Contributions (NDCs) submitted to date by countries in the wake of the Paris Agreement are not nearly enough to limit global warming to 1.5℃/2℃ (UNEP, 2019). If we are to achieve these goals, reflecting on, revisiting, and most likely considerably strengthening related policy, including that of sustainable finance, is critical (Elder, King, & Shigemoto, 2018).

Methodology and Scope

While there is no globally agreed definition of 'sustainable finance', generally it refers to the (process of) integration (or taking account) of environmental, social, and governance (ESG) considerations in the processes of financial decision-making (Archer, 2019; EU, n.d.). This report identifies as 'sustainable finance policy,' any kind of finance policy that explicitly intends to integrate or take into consideration ESG factors. The types of policies covered in this report deal with issues of sustainability primarily in private finance, under various appellations such as green finance, environmental finance, SDG finance, and ESG finance. The report will also assess how sustainable finance policy is considered by Japan and the EU in the context of the Paris Agreement and the SDGs, as these are the most widely accepted, referred to, and globally agreed sustainability objectives.

The report takes a comparative approach when reflecting on Japan/EU sustainable finance policy for the aforementioned objectives. A comparative analysis is made on Japan/EU policies from six different perspectives. First, analysis is made on the intended and stated policy objectives of sustainable finance policy for Japan/EU. Second, analysis looks into the policy type favoured in the approach, and sees if policies take a regulatory approach or a voluntary approach. Third, intended stakeholders and asset classes are observed to see if any particular stakeholder or asset class is emphasised or prioritised. Fourth, Japan/EU policies are categorised according to the UNEP sustainable finance categories to see if any type or area of policies are given more weight. Finally, among the UNEP sustainable finance categories, approaches taken on disclosure and on classification are further observed and analysed. While it should be noted that there are inherent differences and limitations when comparing regional and national policies, a comparative approach from multiple angles will serve to identify key characteristics and approaches, identify factors which are specific and not necessarily common to the shared topic of sustainable finance, and help to stimulate debate on possible alternatives to exiting policy (Klein, 1991).

In the case of Japan, there is no single policy document which comprehensively presents the entirety of sustainable finance policy, and neither is there one single government agency with oversight on such policy. For the purpose of this report, we therefore identified relevant policies within the jurisdiction of relevant government agencies, in order to provide an as-exhaustive-as-possible overview of sustainable finance policies and initiatives in Japan. The annex featured at the end of this report is therefore, to the knowledge of the authors, the only available document providing such a comprehensive overview. Given there is a limited amount of material written in English on sustainable finance policy in Japan, relative to that covering the EU, and with the report's target audience primarily non-Japanese readers s of English, the approach to reviewing sustainable finance policy in Japan is more descriptive and makes an effort to elaborate on context and background.

In the case of the EU, the situation is quite different and unique, as well as being reflective of the EU as a union of member states. Among the 28 EU countries (including the United Kingdom before Brexit in 2020), there is a broad diversity of policy ambition related to sustainable finance that makes the topic across countries heterogeneous and difficult to analyse as a single entity. There have also been developments in the EU for several years, with the adoption of a number of EU legislations concerning sustainability in the field of finance. Recently, EU ambition was heightened considerably by the development of a single policy package launched in 2018, which covers a broad scope of initiatives and policies: the EU Sustainable Finance Action Plan (EU SFAP). Because this is the most recent and overarching framework, on an EU-wide level, we use the EU SFAP as the core reference for sustainable finance policy in the EU for our study, while providing a brief overview of preceding or other relevant individual policy initiatives. It should be noted that the EU SFAP is in the midst of its implementation and is evolving as a result of ongoing discussions. Best efforts were made to reflect the most recent developments, but final policy outcomes may result in changes in the nature of policy and or other assessments. Furthermore, given there is an abundance of English-language materials available on the EU Taxonomy, the review of sustainable finance policy in EU focuses on introducing the basic elements so that any differences with Japan can be properly understood. Sections 2 and 3 are structured differently as a result of such differences between Japan and the EU.

The scope of the report is limited to policy, and it covers policies, in principle, implemented after 2015, making the every effort to include recent developments up to March 2020. The list of policies provided is not intended to be exhaustive but indicative, and thus it should cover the majority of relevant policy developments. The report does not address the question of policy effectiveness or actual market practice. This is not to say these elements are not important. In fact, it is duly recognised that sustainable finance has indeed evolved with institutional investors and the market at the helm. However, the report in principle refrains from visiting these elements, as it opens a separate level of discussion. The comprehensive assessment of long-term climate change and development policies are also outside the scope of this report (i.e. the level of ambition and/or the appropriateness of certain tools) for the same reasons, although these are just as crucial and indispensable in the discussion.

Structure

Section 2 addresses sustainable finance-related policy in Japan, and Section 3 looks at this policy in the EU. Each section first looks at high-level policies, identifies how the role of private finance is positioned in national long-term strategies and policies on climate change and sustainable development position, and reciprocally how finance policies approach climate change and sustainable development objectives. The report then provides an overview of individual policies relating to sustainable finance. Section 4 brings us to the comparative analysis of Japan/EU sustainable finance policies. A comparative analysis is made on policy objective, policy type, intended stakeholders and asset classes, type of policy tool, approach to disclosure and approach to classification, as elaborated in 'Methodology and Scope.' from six perspectives. Section 5 summarises the report, bringing together some conclusions.

2. Japan Sustainable Finance Policy Overview

2.1 Relevant High-Level Policies, Framework Documents

Sustainable finance policy in Japan has been undertaken across a number of ministries, namely the Ministry of the Environment (MOE), the Ministry of Economy, Trade and Industry (METI), the Financial Services Agency (FSA), and the Cabinet Office (CAO).[1] Each ministry operates within the bounds of its mandate, and sustainable finance related policies are interpreted and implemented to serve their respective agendas. There is no single overarching framework document or policy specifically on sustainable finance, presenting the policy position of Japan as a result of a cabinet decision, or laying out the entirety of Japan's sustainable finance policy.

Next, we look at how sustainable finance is treated within national policy related to the SDGs and the Paris Agreement. In this regard, there are national policy documents adopted as a result of a cabinet decision.

Japan's "Long Term Strategy (LTS) under the Paris Agreement" (The Government of Japan, 2019b), was formally adopted as a cabinet decision under the Abe Administration in June 2019 and subsequently submitted to the UNFCCC Secretariat. Ten pages out of the 113-page document, a full section under Chapter 3 entitled Promotion of Green Finance, is dedicated to finance, and is the place where Japan's sustainable finance policy can be found most comprehensively. However, the LTS does not present a vision to guide new policy on sustainable finance or introduce new individual policies, but rather brings together and confirms existing policies and initiatives in place.

The SDGs Implementation Guiding Principles along with the SDGs Action Plan 2020 were most recently updated in December 2019 and are key to understanding the thinking and priorities of Japan's SDGs policy (The Government of Japan, 2019a). The revised SDGs Implementation Guiding Principles newly added a half-page on finance under the section on the role of stakeholders. The section notes that the SDGs should harmonise the three facets of economy, society and environment, and therefore there needs to be an increase in finance considering ESG factors, such as ESG finance, impact finance, social finance, and SDGs finance. The need to assess the effectiveness of measures is mentioned but no specific measures are given, and the document does little more than acknowledge the role of such finance.

Both documents confirm the relevance of existing sustainable finance policy but do not present new objectives, direction or material. Therefore although these policies are 'high-level policies' in that they present a unified view of the Japanese government beyond each ministry, they have not originated existing sustainable finance policies. More relevant is to understand the different contexts and wider agendas in which drive the sustainable finance policies of the respective ministries. Individual policies will be discussed in the following section with this understanding.

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[1] Other ministries such as the Ministry of Foreign Affairs (MOFA) and the Ministry of Land, Infrastructure, Transport and Tourism (MLIT) have also been involved, but to a lesser degree, and thus have been not included in the scope of this report.

2.2 Overview of Individual Policies

The following section provides an overview of key policies and directions indicated by each ministry. A list of all policies can be found at the end of Section 4.3 (Table 6), and with further details in Annex 1. Bureaucrats play a major role in the policymaking process in Japan (Tsuneki, 2011). Especially in the area of sustainable finance policies, bureaucrats orchestrate much of the policymaking according to the mandates of their respective ministries. Policy landscapes can be more easily and accurately understood by examining those related to each relevant ministry.

Typically, variations of 'expert committees', comprised of representatives chosen from and in consultation with the relevant private sector and a few academics from the relevant field, are established under the initiative of the given ministry (Schwartz, 2001). These committees deliberate on a specific mandate over the course of a few months to a year, often with the aim of producing output documents, such as a guidance document or a policy recommendation. Guidance documents are prepared to provide direction and technical support on a specific issue to the relevant private sector. Policy recommendations are 'recommendations' and are technically prepared by the committees, independent of the ministry. However they often serve to provide legitimacy for a policy direction, and it is important to note that not only does the selection of committee members take place behind closed doors at the discretion of bureaucrats, but the deliberation process and points for discussion are largely based on material meticulously prepared by the bureaucrats. Bureaucrats often commission research institutes or consultants to coordinate and prepare these inputs. Furthermore, it is then typical for specific measures, policies and programmes to be subsequently implemented with little or no modification.

2.2.1 Ministry of the Environment (MOE)

The Ministry of the Environment (MOE) has played a pivotal role in the government support for sustainable finance. Financial measures to support the transition to a low-carbon economy, subsidies and guidance to support renewables have been initiated, initially mostly labelled as 'green finance' or 'environmental finance'. More recently, financial measures have begun to adopt the term ESG, most likely in alignment with global trends.

Expert committees established to drive various sustainable finance policy measures by the MOE are largely comprised of representatives from the sector (58%). Consultancy firms and rating agencies comprise another 15% from the private sector, but there is no representation from wider industry. For a breakdown of committee representation, see Table 1.

In July 2009, the Expert Committee on Environment and Finance of the Central Environment Council was tasked with deliberating on the status and the way forward for 'environmental finance.'[2] In the summer of 2010, the committee presented its findings in its final report, "Towards Green Finance: The New Role for the Financial Sector in Building a Low-Carbon Society" and called for establishing a set of

[2] Expert Committee on Environment and Finance of the Central Environment Council / 中央環境審議会「環境と金融に関する専門委員会」

principles on environmental financial action. In response, financial institutions voluntarily participated in a drafting committee, with MOE serving as its secretariat. Following discussion by the drafting committee, the Principles for Financial Action for the 21st Century were adopted in 2011. Over 270 financial institutions have endorsed the principles and five working groups continue to discuss and engage in the promotion of environmental finance. MOE has subsequently continued its efforts on sustainable finance.

Two documents are key to understanding the general thinking and direction of MOE on sustainable finance. The first is the “Introduction to ESG Investment” (ESG Working Group (Working Group on Incorporating Issues Regarding Sutainability into Investment), 2017)[3] which outlines the why and what of ESG investment as it should be understood by those interested in long-term investment. The document emphasises the following points: (1) the relevance of the investment horizon and the importance of ESG information for long-term investors; (2) the connection of non-financial information (ESG information) with corporate value and the importance of recognising non-financial information as material for corporate value; and (3) the sense of risk as recognised by the UN and by the global financial industry.

Table 1: Composition of Committee Members Related to MOE Initiatives on Sustainable Finance

Policy	Relevant Committee	Private Sector (non-financial)		Private Sector (financial)	Academia	International Organizations / NGOs
		Industry	Consultancy Firms / Rating Agencies			
"Principles for Financial Action for the 21st Century"	Environment Finance Action Principles Drafting Committee	0	2	32	0	0
"Introduction to ESG Investment" (ESG Working Group Report)	Working Group on Incorporating Issues Regarding Sustainability into Investment (ESG Working Group)	0	4	8	2	2
"Recommendation from the High Level Meeting on ESG Finance - Toward becoming a big power in ESG Finance" (Outcome Report / Recommendations)	High Level Meeting on ESG Finance	0	1	9	2	8
"Strategy toward becoming a big power in ESG finance" (Statement)	ESG Finance Strategy Taskforce (Principles for Financial Action for the 21st Century / Ministry of Environment)	0	2	7	0	1
N/A	ESG Finance High Level Panel		2	10	4	8
"Green Bond Guidelines 2017/2020"	Green Bond Review Committee	0	2	5	2	1
"Green Bond Guidelines 2017/2020"	Review Committee on Green Bonds, Green Loans, etc. (Second Review Committee)	0	2	11	3	1
"Green Loan and Sustainability Linked Loan Guidelines 2020"	Review Committee on Green Bonds, Green Loans, etc. (Second Review Committee)	0	2	11	3	1
"Utilizing Environmental Information for the Evaluation of Corporate Value" (Report)	Environmental Information and Corporate Value Committee	0	3	4	4	1
"Perspective on Evaluating Environmentally Sustainable Companies" (Report)	Environmentally Sustainable Companies Evaluation Committee	0	0	6	1	0
"ESG Regional Finance: Learning from Case Studies" (Report)	Committee on Research on Leading Initiatives on ESG Regional Finance	0	0	2	2	3
"Guidance on the Assessment of Community Regenerative Energy Projects" (Revised Version 2019)	Committee on Information Disclosure and Assessment for the Promotion of Green Investment	1	6	12	2	0
TOTAL		0	26	103	25	23
		0%	**15%**	**58%**	**14%**	**13%**

Source: Compiled by authors based on MOE website.

[3] Introduction to ESG Investment (ESG Working Group, 2017) /「ESG 検討会報告書〜ESG 投資に関する基礎的な考え方〜」持続可能性を巡る課題を考慮した投資に関する検討会（ESG 検討会）

The second document key to understanding the thinking of MOE is the “Recommendation from the High Level Meeting on ESG Finance – Toward becoming a big power in ESG Finance” (High Level Meeting on ESG Finance, 2018).[4] The document, which was the final outcome of the High-Level Meeting on ESG Finance,[5] makes the following policy recommendations: (1) ESG investments should be accelerated in ‘direct finance’[6] by supporting disclosure through production of guidance documents and providing platforms for communication; (2) ESG loans should be promoted in ‘indirect finance’[7] by providing technical support to the regional banking sector; and (3) an ESG High Level Panel should be established to follow up on the progress of the recommendations. The first policy recommendation addresses the importance of promoting ESG investment, and accelerating disclosure as the means to do so. The second policy recommendation addresses the importance of promoting ESG finance in the banking sector and in loans, with an explicit reference to the context of ‘Regional Revitalisation (*chihososei*)’.[8] The third recommendation is a concrete proposal to follow up on the first two recommendations. The document can be interpreted as providing a framework for the MOE approach on sustainable finance policy.

The ESG High Level Panel is where progress on the recommendations is followed up.[9] The first meeting was held in February 2019. The second meeting held in March 2020 established two taskforces: the Positive Impact Taskforce and the ESG Regional Finance Taskforce. The Positive Impact Taskforce is mandated to look into the assessment of impact (development of a green impact assessment guide) and other necessary elements to increase positive impact finance. The ESG Regional Finance Taskforce will consider and present a vision and strategy to increase and promote ESG Regional Finance. Both taskforces report to the ESG High Level Panel. Developments are due to be reported at the third meeting scheduled for October 2020. This will be an important space to monitor new policy developments.

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4 Recommendation from the High Level Meeting on ESG Finance – Toward becoming a big power in ESG Finance (High Level Meeting on ESG Finance, 2018) / 「ESG 金融懇談会 提言 ～ ESG 金融大国を目指して ～」（ESG 金融懇談会）

5 The High-Level Meeting on ESG Finance convened 20 representatives, mostly from the financial market and some from academia, to discuss the role of finance in creating a sustainable future.

6 ‘Direct finance’ refers to financing directly via the market or directly from investors, such as by issuing shares.

7 ‘Indirect finance’ refers to financing indirectly via financial intermediaries, such as by taking out loans from a bank. It is generally understood that indirect financing has traditionally had a strong prevalence in Japan.

8 The concept of ‘Regional Revitalisation (*chihososei*)’（地方創生）has been promoted by the second Abe administration, formally presented in 2014. The administration has positioned it front and centre in addressing the pressing challenges of a rapidly ageing, declining population in Japan’s rural regions. Municipalities have faced declining tax revenues, and regional banks have struggled under a prolonged period of low interest rates. A range of policy measures have been deployed in an attempt at job creation and directing younger generations to relocate from Tokyo to rural regions. Regional Revitalisation is the Japanese government’s priority effort to confront a shrinking economy manifesting most strikingly in the rural regions, while realising sustainable growth. Regional Revitalisation also claims a central role in the context of SDGs initiative in Japan, and is one of the three pillars in the SDGs Action Plan 2019, along the empowerment of youth and women, and the promotion of business innovation. The MOE has presented and promoted the creation of a Regional Circular and Ecological Sphere (R-CES) for this purpose.

9 The ESG High Level Panel is comprised mainly of financial market representatives.

Individual policies or measures – mostly either voluntary ‘guidance’ documents to facilitate understanding, financial subsidies covering additional costs associated with green products, or capacity building support programmes – can be and should be understood in the context of the above two documents. MOE measures can be roughly categorised into the following three areas, the last two mirroring the aforementioned policy recommendations: (1) policies and measures around promoting Green Bonds (and Loans) as a specific sustainable financial product; (2) policies around promoting ESG disclosure and supporting corporate investor communication with an emphasis on non-financial information enhancing corporate value; and (3) policies around promoting more broadly ESG finance,[10] specifically in the banking sector in the context of Regional Revitalisation. These three areas are detailed below.

First, on Green Bonds (and Loans), MOE came out with the Green Bond Guidelines in March 2017, together with a number of accompanying measures to boost the nascent green bond market. Those measures included the establishment of the Green Bond Issuance Promotion Platform intended to serve as an online portal for all information regarding green bonds, a call for model cases followed by the Japan Green Bond Awards (March 2019) to showcase innovative and leading deals, a subsidy support programme to cover costs associated with green bond issuance such as external reviews, alongside a registration system required for reviewers applying for the subsidy. The Green Bond Guidelines were updated in March 2020, reflecting international developments and updates made on the ICMA Green Bond Principles since 2017. The Green Loan Guidelines and the Sustainability Linked Loan Guidelines were newly introduced at the same time (MOE, 2020). The Green Bond Issuance Promotion Platform was expanded into a Green Finance Portal, and the Green Bond Awards were updated and held as the ESG Finance Awards in early 2020, both with intentions to include loans.

The second area of work for MOE is around promoting ESG disclosure and supporting corporate investor communication. These efforts place emphasis not only on disclosure itself, but also on guiding understanding of the information disclosed, with most importance placed on its relevance to enhancing corporate value. Guidance documents produced for investors include the report “Utilizing Environmental Information for the Evaluation of Corporate Value” (Environmental Information and Corporate Value Committee, 2019)[11] and the “Perspective on Evaluating Environmentally Sustainable Companies” (Environmentally Sustainable Companies Evaluation Committee, 2019).[12] MOE has also enthusiastically supported the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), producing the guidance document “Practical Guide for Scenario Analysis in line with TCFD Recommendations” (MOE, 2019)[13] as well as the “Support Program for Climate Risk /

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[10] ‘ESG Finance’ seems to be the most often used and preferred terminology, encompassing lending (indirect finance) in addition to investment (direct finance).

[11] Utilizing Environmental Information for the Evaluation of Corporate Value (Environmental Information and Corporate Value Committee) / 「環境情報を企業価値評価に活用するための考え方に関する報告書」（環境情報と企業価値に関する検討会）

[12] Perspective on Evaluating Environmentally Sustainable Companies (Environmentally Sustainable Companies Evaluation Committee) / 「環境サステナブル企業」についての 評価軸と評価の視点」（環境サステナブル企業評価検討会）

[13] Practical Guide for Scenario Analysis in line with TCFD Recommendations (MOE, 2019) / 「TCFD を活用した経営戦略立案のススメ ～気候関連リスク・機会を織り込むシナリオ分析実践ガイド～」（環境省）

Opportunity Assessment and Scenario Analysis in line with TCFD Recommendations,"[14] intended for companies interested in acquiring necessary practical skills. MOE has also invested heavily in establishing and operating the ESG Dialogue Platform,[15] an online system integrating database functionality with direct dialogue functionality, intended to support the disclosure of environmental information of companies, and facilitate dialogue between companies and investors.

The last area of MOE policy is around initiatives promoting ESG finance in the banking sector, with an emphasis placed in the context of Regional Revitalisation; otherwise referred to as 'ESG Regional Finance.' The report "Findings from Case Studies on ESG Regional Finance" (Committee on Research on Leading Initiatives on ESG Regional Finance, 2019)[16] sets out the vision and role for ESG Regional Finance, and presents 10 case studies of banks and credit associations engaging in such activities. The ESG Regional Finance Promotion Program[17] rolled out in 2019, is comprised of two components. The programme first identifies potential regional green projects with future and profitability potential through market research. It then assists companies and financial institutions in establishing the process for programme assessment considering ESG factors. This programme runs in conjunction with the ESG Regional Finance Interest Subsidy Program[18] which financially subsidises banks offering green lending products with preferential interest rates.

In summary, MOE's policies on sustainable finance can be broadly grouped into: policies concerning green (and sustainability) bonds and loans; disclosure; and ESG Regional Finance with an emphasis on banks and Regional Revitalisation. Other developments, including discussions around impact, are currently being discussed under the framework of the ESG High Level Panel.

2.2.2 Ministry of Economy, Trade and Industry (METI)

Along with the MOE, the Ministry of Economy, Trade and Industry (METI) has introduced policies, measures and guidance to promote sustainable finance (METI uses preferentially the term 'ESG investment' and or 'ESG finance').

METI's mandate is 'national wealth expansion' (METI, 2014b) and the main objective of METI's policies is realising sustainable economic growth (The Government of Japan, 2016). In this regard, for METI, investment in intangible assets (and ESG investment), improving corporate governance and promoting disclosure and dialogue with investors are means to the end of realising sustainable economic growth, by way of enhancing corporate value and strengthening the competitiveness of Japanese companies

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[14] Support Program for Climate Risk / Opportunity Assessment and Scenario Analysis in line with TCFD Recommendations, /「脱炭素経営による企業価値向上促進プログラム
TCFD に沿った気候変動リスク・チャンスを織り込む経営の支援」

[15] ESG Dialogue Platform /「ESG 対話プラットフォーム」

[16] Findings from Case Studies on ESG Regional Finance' (Committee on Research on Leading Initiatives on ESG Regional Finance) /「事例から学ぶ ESG 地域金融のあり方－ESG 地域金融の普及に向けて－」（ESG 地域金融の先行事例調査に関する検討会）

[17] ESG Regional Finance Promotion Program /「ESG 地域金融促進事業」

[18] ESG Regional Finance Interest Subsidy Program/「地域 ESG 融資促進利子補給事業」

in the global market (METI, 2014a).

At METI, policy directions are discussed under various expert committees / study groups informing policymaking by way of issuing summary reports, as is the case at MOE. The groups/committees under METI are heavily dominated by representatives from the private sector (82%). Representatives from NGOs and international organisations are very rare, and extremely low in number (3%). For a breakdown of committee representation, see Table 2.

METI's sustainable finance-related policies can be understood in the context of its wider economic policy, namely the Japan Revitalization Strategy, which was first introduced in 2013.[19] The Japan Revitalization Strategy, widely promoted as 'Abenomics,' was comprised of three pillars: (1) aggressive monetary policy; (2) fiscal stimulus through government spending; and (3) a growth strategy based on encouraging investment in and from the private sector. This was followed shortly in 2014 by the "Ito Review," a policy proposal named after Professor Kunio Ito who chaired the process. This is a key document crucial in understanding the direction of current economic policy (METI, 2014a). The Ito Review identifies low profitability and low capital productivity (low rates of return on equity) as the main challenges faced by Japanese business. The proposal highlights the importance of investing in innovation and in intangible assets, and suggests improvements in the relationship between business and investors for growth and the enhancement of corporate value in the mid-to-long term. Key measures presented to these challenges are corporate governance reform and the promotion of constructive engagement with investors.

Table 2: Composition of Committee Members Related to METI Initiatives on Sustainable Finance

Policy	Relevant Committee	Private Sector (non-financial)		Private Sector (financial)	Academia	International Organizations / NGOs
		Industry	Consultancy Firms / Rating Agencies			
"Final Report of the Ito Review 'Competitiveness and Incentives for Sustainable Growth: Building Favorable Relationships between Companies and Investors' Project" (The Ito Review)	"Competitiveness and Incentives for Sustainable Growth: Building Favorable Relationships between Companies and Investors" Project	21	5	14	7	1
"The Ito Review 2.0"	Study Group on Long-term Investment （Investment Evaluating ESG Factors and Intangible Assets）	5	2	7	3	2
N/A	"Study Group for Discussing Approaches to Making More Substantial the Dialogues for Creation of Sustainable Corporate Value"	9	0	7	1	0
Declaration of Active Fund Managers	The Active Fund Manager Subcommittee	0	0	13	0	0
"Guidance for Collaborative Value Creation by Biotechs and Investors"	Study Group for Encouraging Dialogue between Biotech Venture Businesses and Investors	1	3	10	1	0
"Diversity 2.0 Action Guidelines"	Study Group for Ideal Approaches to Diversity Management (Diversity 2.0) as a Competitive Strategy	6	3	2	2	0
"Practical Guidelines for Corporate Governance System (CGS Guidelines)"	Corporate Governance System (CGS) Study Group	6	5	3	8	1
"Guide for SDG Business Management"	SDG Management / ESG Investment Study Group	11	0	3	2	0
"Concept Paper on Climate Transition Finance Principles"	Study Group on Environmental Innovation Finance	2	1	4	1	2
TOTAL		61	19	63	25	6
		35%	11%	36%	14%	3%

Source: Compiled by authors based on METI website.

[19] Japan Revitalization Strategy / 日本再興戦略 nihon-saikou-senryaku

The Ito Review 2.0, a follow-up report to the Ito Review, provides further recommendations including production of guidance material to promote the concept of 'Collaborative Value Creation'[20] in an effort to create common language and enhance communication between companies and investors, and creating a platform to promote integrated disclosure and dialogue (Study Group on Long-term Investment - Investment Evaluating ESG Factors and Intangible Assets, 2017). In response to the recommendations, METI released the Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation: ESG Integration, Non-financial Information Disclosure and Intangible Assets into Investment (Guidance for Collaborative Value Creation) (METI, 2017).[21] METI also established the Forum for Integrated Corporate Disclosure and ESG Dialogue to share best practices on corporate reporting/disclosures.

METI has also taken active measures to support the TCFD recommendations. Promoting the enhancement of (non-financial) information disclosure for the purposes of improving corporate communication with investors is consistent and in line with existing METI policy to promote Collaborative Value Creation. Specifically, METI produced the Guidance for Climate-related Financial Disclosure (TCFD Guidance) to support companies intending to implement the TCFD recommendations (METI, 2018). METI extended its support to the establishment of the TCFD Consortium in May 2019, a platform to exchange information on the effective and efficient disclosure of climate-related information.[22] METI also hosted the first TCFD Summit in October 2019, bringing onboard the TCFD Consortium and World Business Council for Sustainable Development (WBCSD) as co-organisers.

It is also worthwhile noting that the SDGs have been widely embraced by the business sector in Japan (Onoda et al., 2019)(Onoda, Morishita, Shimizu, Yoshida, & Amanuma, 2020). The term 'SDGs management' refers to finding business opportunities that respond to and find solutions to social and environmental challenges (METI, 2019a). The Guide for SDG Business Management shows how to promote the incorporation of SDGs into the management strategies of corporations (SDG Management / ESG Investment Study Group, 2019), and the SDG Management/ESG Investment Study Group Report released subsequently by the same study group discusses what SDGs mean for corporations, investors and different stakeholders, and clarifies the linkages between ESG investment and SDGs business management (METI, 2019a).

As a recent development, the Environmental Innovation Finance Study Group was newly established under METI in February 2020. Once again chaired by Professor Ito, the study group is comprised of representatives from the financial sector as well as the steel and gas industry, and its mandate is to discuss means to increase financing for transition. The first meeting discussed recent global developments on sustainable finance, giving particular attention to the EU Taxonomy highlighting industry concerns on its binary approach. The Concept Paper on Climate Transition Finance Principles, outlining the definition of 'climate transition finance', was presented at the second meeting held in March 2020 (Study Group on Environmental Innovation Finance in Japan, 2020). This presents an

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20 Collaborative Value Creation / 価値協創 kachi-kyosou

21 Guidance for Integrated Corporate Disclosure and Company-Investor Dialogues for Collaborative Value Creation: ESG Integration, Non-financial Information Disclosure and Intangible Assets into Investment (Guidance for Collaborative Value Creation) / 「価値協創ガイドライン」

22 The Ministry of the Environment and the Financial Services Agency also supported the establishment of the Consortium.

alternative approach to the EU Taxonomy on defining sustainable finance, as its primary purpose is to capture finance directed to transition efforts which would fall short of thresholds established by the EU Taxonomy, and therefore would not be considered 'sustainable finance' aligned with the EU Taxonomy. We will take a further look into this in Section 4.6.

In summary, METI's policies concerning sustainable finance should be understood as part of the wider economic policies, defined in documents such as the Ito Review (2.0). The objective of enhancement in corporate value is to be achieved by a number of measures including enhancing a constructive dialogue between investors and corporates, or through Collaborative Value Creation. To this end, disclosure is promoted and supported. A recent development on climate transition finance principles which emerged, in part, in response to the EU Taxonomy, should be followed closely given its implications on classification and a general approach to sustainable finance.

2.2.3 Financial Service Agency (FSA)

The Financial Service Agency (FSA) is a financial regulator overseeing banking, securities and exchange, and insurance to ensure stability in the financial system.

Most importantly, the FSA introduced the 'Stewardship Code' for institutional investors in 2014 and the 'Corporate Governance Code' for businesses in 2015. These codes were addressed as part of the Abe administration's wider economic policy, known as the Japan Revitalization Strategy. The Stewardship Code has since been revised twice, most recently in March 2020, and the consideration of ESG elements in investment decisions has been reinforced in the revision process. The Corporate Governance Code was revised in 2018, and added a mention on the role of corporate pension funds as asset owners. While compliance to these codes is voluntary, they have provided important and fundamental guidance for investors in making ESG considerations.

The FSA joined the Network for Greening the Financial System (NGFS) in June 2018 and has been visibly present in aforementioned initiatives lead by MOE and METI. The FSA is also undertaking a joint study to conduct an impact evaluation of climate-related risks to Japan's financial stability through a research fellowship (2 Degrees Investing Initiative, 2019). The FSA also newly created the position of a 'Chief Sustainable Finance Officer' in March 2019, to coordinate all matters related to sustainable finance, further signaling its commitment to sustainable finance.

In summary, the FSA has guided investors and the industry through the Stewardship Code and the Corporate Governance Code, and has also been leading on the impact of climate risk on financial sustainability.

2.2.4 Cabinet Office

The Cabinet Office (CAO) handles the day-to-day affairs of the Cabinet. The initiative of the CAO on ESG finance is predominantly in the context of the SDGs and more specifically Regional Revitalisation mentioned previously in the context of MOE policies. A study group set up under the Cabinet Office produced a report entitled “Basic Ways of Thinking in Promoting SDGs Finance for Regional Revitalization” in March 2019 (Regional Revitalizations SDGs / ESG Finance Research and Study Group, 2019).[23] The Report underlines the important role of small and medium-sized enterprises (SMEs) in addressing regional challenges through the SDGs. According to the paper, the key to addressing challenges is in maintaining existing business opportunities and creating new ones, thereby generating economic activity and income in the process of addressing various economic, social and environmental challenges faced in the regions. Generated income should be reinvested in the region to create an ‘independent and positive cycle’ to achieve sustainable growth. The more urgent and recognised challenge is economic and social, while sustainability issues are framed as a business opportunity and as a means to address the aforementioned challenges.

The report defines such finance flow as Regional Revitalisation SDGs Finance. Regional banks are expected to provide guidance and access to finance as appropriate[24]. Regional banks have long struggled under a shrinking regional economy and a prolonged period of low interest rate policy. Restructuring and updating the business models of regional banks has been in itself a widely recognised issue. Regional Revitalisation SDGs Finance seeks to address the economic, social and environmental challenges faced in the rural regions of Japan while building the capacity of regional banks. Regional banks are expected to strengthen their capacity in business assessment,[25] making lending decisions based on the assessment of future profitability and regional economic impact, rather than basing those decisions strictly on guarantees and collateral. Regional banks are also anticipated to provide business consultancy services with a wider range of business support to SMEs.

ESG investment has also received increased attention at the Japan Future Investment Committee,[26] where economic growth strategies are debated to increase investment and further structural reform. The Growth Strategy Action Plan adopted in June 2019 included the promotion of ESG investment in the context of de-carbonisation and the national LTS. Although matters handled by the CAO is indicative of a cabinet-led initiative, ‘economic’ matters covered under the Japan Future Investment Committee are extensive. How and when sustainable finance-related matters are mentioned suggests it may not be the predominant driver. However, it is significant in that sustainable finance is mentioned, acknowledged and promoted within a central cabinet initiative on the country’s economy.

In summary, whilst the CAO cannot be seen as the key driver of sustainable finance policies, it has provided support to the promotion of sustainable finance through its flagship initiatives such as the Japan Future Investment Committee. Regional Revitalisation is also another policy priority, and sustainable finance is identified as a key enabler.

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[23] Basic Ways of Thinking in Promoting SDGs Finance for Regional Revitalization (Regional Revitalizations SDGs / ESG Finance Research and Study Group)
「地方創生に向けた SDGs 金融の推進の基本的な考え方」（地方創生 SDGs・ESG 金融調査・研究会）

[24] ‘Regional banks’ as mentioned in this report include smaller regional financial institutions working in communities such as shinkin banks and credit associations unless otherwise noted.

[25] business assessment in lending / 事業性評価 jigyosei-hyouka

[26] Japan Future Investment Committee / 日本未来投資会議 nihon-mirai-toushi-kaigi

2.2.5 Government Pension Investment Fund (GPIF)

The Government Pension Investment Fund (GPIF) undertakes the management and investment of the pension reserve of the National Pensions and the Employees' Pension Insurance, entrusted by the Minister of Health, Labour and Welfare (MHLW). With assets under management at nearly JPY 169 trillion (USD 1.5 trillion) as of the end of December 2019 (GPIF, 2020), GPIF is the largest public pension fund in the world. Strictly speaking, GPIF is an incorporated administrative agency, thus operating independent of government and the nature of its initiatives are not that of public policy. However, taking note of GPIF's overwhelming size and influence on the market and the role that it has played in structuring the ESG market in Japan, the following provides a quick overview of GPIF-related initiatives.

Since signing on to the Principles for Responsible Investment (PRI) in 2015, GPIF has actively promoted ESG investment. ESG investment in Japan has grown rapidly since then, and it is widely recognised that GPIF has driven the expansion of ESG investments in Japan (e.g. Schumacher et al., 2020). According to GPIF, considering ESG factors in its investment improves risk-adjusted returns in the long term, and allows it to fulfill its fiduciary duties (GPIF, n.d.). GPIF is strengthening its ESG integration efforts as outlined in its investment principles established in 2015. GPIF, as a universal owner, promotes engagement (constructive dialogue) rather than divestment in its approach to ESG investment.

GPIF made a public call for, and subsequently selected three ESG indices for Japanese equities in 2017, and additionally selected two environmental stock indices in 2018.[27] GPIF encouraged the disclosure of metrics by ESG index providers by making it a condition for selection. Japanese public corporates sought inclusion in these indices and responded by disclosing relevant information. The influence can be seen in the number of company press releases announcing their inclusion in the GPIF selected indices. We were able to confirm 34 such press releases in 2017, 39 in 2018 and 54 in 2019.[28]

In 2017, GPIF revised its investment principles to expand the scope of stewardship activities from equities to all asset classes. A joint research programme was conducted with the World Bank Group on ESG considerations in bond investment for developing efforts on ESG to non-equity asset classes (a report was published in April 2018 (Inderst & Stewart, 2018)). GPIF has also been assessing managers' performance based on their ESG integration. GPIF also announced that it had invested more than USD 1 billion in green bonds as of the end of July 2019, in partnership with the World Bank Group, the European Investment Bank and the Asian Development Bank (Environmental Finance, 2019).

GPIF has also been actively engaging in global initiatives regarding sustainable finance. GPIF joined the Climate Action100+ in October 2018 and expressed its support for the Task Force on Climate-related Financial Disclosure (TCFD) recommendations in December 2018. Furthermore, Hiro Mizuno, Chief Investment Officer at GPIF, became a PRI board member in 2017, and has made many appearances and contributions to sustainable finance conferences and the media globally. He is recognised as one

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[27] GPIF selected two broad indices and one thematic (gender) index in 2017 (FTSE Blossom Japan Index, MSCI Japan ESG Select Leaders Index, MSCI Japan Empowering Women Index). An additional two environmental indices were selected in 2018 (S&P/JPX Carbon Efficient Index, S&P Global Ex-Japan LargeMid Carbon Efficient Index)

[28] A search was conducted on press releases of companies found in the Nikkei BP database which included mentions of 'GPIF,' 'indices' and 'selection' (https://bizboard.nikkeibp.co.jp/academic/index.html). Data retrieved as of March 30, 2020.

of the key international leaders of the sustainable finance field.

In summary, GPIF has taken leading measures on sustainable finance, and given its size and thus influence on the market, it is likely to continue to play a key role in the development of sustainable finance.

3. EU Sustainable Finance Policy Overview

3.1 Background and Context of EU Sustainable Finance Policy

The High-Level Expert Group on Sustainable Finance (HLEG), established by the European Commission (EC) in December 2016, can be said to have kicked off the current momentum of sustainable finance in the EU. Mandated to provide advice to the EC on how to steer public and private finance toward sustainable investments, as well as tasked to identify steps needed to protect the stability of the financial system from environment related risks, the HLEG drew on representatives from civil society, financial institutions and academia (European Commission, n.d.). Following the launch of a final report by the HLEG in January 2018, the EC adopted the EU Action Plan on Sustainable Finance (EU SFAP) in March 2018. The EU SFAP was largely based on the recommendations of the HLEG as presented in the final report, with 'a striking correspondence' between HLEG's recommendations and the EU SFAP (Thimann, 2019).

However, there were related developments preceding the HLEG, including five broad policies areas on sustainable finance in the EU recognised as the five 'R's: capital reallocation for financing sustainable development; enhancing frameworks for risk management; clarification of the core responsibilities of financial institutions; improvement of reporting and disclosures; advancing the system and need for a strategic reset (UNEP FI, 2016). Specific policies and initiatives include the European Fund for Strategic Investment; initiatives of the European Investment Bank such as the carbon emission limitation on project finance lending; the reduction of risk premium by the European Central Bank (ECB) applicable to ABS collateral to 10% from 16%; initiatives of the Capital Market Union (CMU) which acknowledges the importance of long-term sustainable investment; the EU Directive on the activities and supervision of institutions for occupational retirement provision (IORP II Directive) which sets common standards on soundness of occupational pensions and better protects pension scheme members and beneficiaries; the Shareholder Rights Directive on transparency and reporting on the turnover and maturity of funds; the Non-Financial Reporting Directive (NFRD) which requires funds to disclose new and emerging environmental risks to beneficiaries; and the packaged retail and insurance-based investment products (PRIIPS) Directive which improves the disclosure of key documents and information for retail investors (UNEPFI, 2016).

Some of the EU's current initiatives on sustainable finance builds on these preceding policies. For instance, NFRD lays down the rules on disclosure of non-financial and diversity information by large companies and companies have been required to include non-financial statements in their annual reports since 2018. As part of the EU SFAP, a review is being conducted on the NFRD to strengthen the foundations of sustainable finance, recognising that an appropriate balance is required between flexibility and the standardisation of disclosure necessary to generate the data needed for investment decisions (European Commission, n.d.).

The origins of the EU SFAP can be found in discussions concerning the CMU, a flagship initiative of the EC which seeks to create a single capital market (European Commission, 2015). In September 2015, the EC adopted an action plan on building a CMU which lists over 30 actions and related measures. As a follow-up to step up implementation and accelerate reform, in September 2016, Capital Markets

Union – Accelerating Reform was launched, which states expert group would be established to develop a comprehensive European strategy on green finance (European Commission, 2015). This led to the establishment of the HLEG mentioned at the beginning of this section.

With the establishment of the HLEG and the adoption of the EU SFAP, the EU has been increasingly prioritising sustainable finance. The identification of reasons or drivers for this is not a simple task, as the EU is not a unitary actor. However, there are a number of elements which can be said to have contributed to the momentum of prioritising sustainable finance policy.

First is the sense of urgency and momentum associated especially with the Paris Agreement in 2015. The EU SFAP reads as follows: 'As we are increasingly faced with the catastrophic and unpredictable consequences of climate change and resource depletion, urgent action is needed to adapt public policies to this new reality.' The EU regards the financial sector as an enabler for long-term transition and a key player in supporting the transition towards net-zero emissions by reorienting capital flows and investment toward necessary solutions (European Commission, 2018b). Thus, the EU estimates that investment in the energy system and related infrastructure needs to be increased by 2.8% of GDP (or around EUR520-575 billion annually). Current investment is at 2% of GDP (European Commission, 2018b).

The experience of the 2008 financial crisis seems to have created additional momentum. Christian Thimann, Chair of the EU's HLEG on Sustainable Finance notes that he had seen the darkest days of finance and such experience led him to think the narrow, self-centered and speculative finance model should shift towards long-term investment into real economic assets (Thimann, 2019). Such changes in public sentiment seem to be representative not only of environmental-conscious investors, but also of EU retail investors who own 40% of total financial assets in the EU. Evidence does in fact show that most EU retail investors hope to invest in a sustainable manner (Dupre, 2019; EU HLEG on Sustainable Finance, 2018). Finally, the EU had made significant progress in decoupling environmental impacts from economic growth over the previous decade (2005-2014) (Secchi, Corrado, Beylot, Sala, & Sany, 2019), and that most likely contributed to lessening those elements which may have hindered initiatives driving sustainable finance in the EU.

Finally, we look at the context in which sustainable finance is mentioned in the EU Long Term Strategy and in the EU SDGs related initiatives. Sustainable finance receives a mention in the submission of the Long Term Strategy to the UNFCCC secretariat, which states transition will require significant public and private investments (European Comission, 2020). While the Strategy does not launch new policies, it endeavours to direct EU climate policy and to frame the long-term contribution of the EU to achieve the temperature objectives of the Paris Agreement (European Comission, 2020). In the context of the SDGs, the EU has taken many actions supporting Goal 17 — Strengthen the means of implementation and revitalize the global partnership for sustainable development, especially Goal 17.1 which relates to finance (EC, n.d.). However, EU actions listed under this goal are mostly development-oriented or related to public finance, rather than sustainable finance in the private sector.

In summary, the HLEG and EU SFAP are the fundamental pillars of current EU sustainable finance policy. These certainly build on previous sustainable finance policies developments, including that of the CMU. Elements contributing to the increased momentum are complex, but most probably include the

heightened sense of urgency associated with the Paris Agreement and the experience of the economic crisis. Sustainable finance receives a mention in the EU Long Term Strategy and in the EU SDG-related initiatives but this is not the area where new policies are developing.

3.2 EU Sustainable Finance Policy: The EU Action Plan on Sustainable Finance

The EU Action Plan on Sustainable Finance (EU SFAP) sets out a comprehensive strategy on sustainable finance. The aim of the EU SFAP comprises three pillars: (1) reorienting capital flows towards sustainable investment; (2) management of financial risks stemming from environmental and social issues such as climate change; and (3) fostering of transparency and long-termism in financial and economic activity. Table 4 shows a summary of the EU SFAP and its follow-ups. Some actions have already been launched at the date of writing, while others are still works in progress, some towards legislation, and others under implementation or deliberation for more specific and detailed standards. Generally speaking, the EU SFAP was well received by market participants. For instance, Hoerter (2019), who heads up ESG at Allianz Global Investors, called the EU SFAP 'perhaps (the) most advanced initiative so far to drive sustainable and inclusive growth.'

The EU SFAP particularly emphasises the importance and urgency of developing an EU taxonomy and sees it as 'a pre-condition for actions like standards, labels, the calibration of prudential requirements and the use of low-carbon benchmarks (European Commission, 2018b)'. The proposed taxonomy is the EU sustainability classification of economic activities, which sets technical screening criteria for six environmental objectives. More simply, it can be understood as a catalogue of economic activities which qualify as 'sustainable.' Currently, many financial products are labeled 'sustainable' but there is no single criteria to verify this, and concerns have been raised of 'sustainability washing.' The technical screening criteria for the EU taxonomy are: (1) make a substantive contribution to one of six environmental objectives (Table 3); (2) do no significant harm (DNSH) to the other five, where relevant; and (3) meet minimum safeguards (e.g. OECD Guidelines on Multinational Enterprises and the UN Guiding Principles on Business and Human Rights)(EU Technical Expert Group on Sustainable Finance, 2020). Since the performance level of the criteria is designed to be consistent with a goal of net zero by 2050, it can be said to be environmentally robust, reflected by recognition of the climate and environmental crises (Ingrid, 2019).[29] Following these criteria, financial market participants will be required to complete their first set of disclosures against the taxonomy, covering activities that substantially contribute to climate change mitigation and/or adaptation, by 31 December, 2021; large companies which are already required to provide a non-financial statement under the NFRD need to comply in the course of 2022. Hence, the proposed taxonomy is 'a strong public policy case' which aims to make tools to help laggards catch up with leaders and to quickly grasp what counts as sustainable investment and what does not (Ingrid, 2019).

[29] Coal and natural gas are ineligible under the Taxonomy (TEG, 2020).

Table 3: EU Environmental Objectives & Policy Goals

1. Climate Change Mitigation: Net zero by 2050, 50% to 55% reduction by 2030, at least 32% of share of renewables in final energy consumption, at least 32.5 % energy savings compare with business-as-usual (yearly investment gap EUR 175-290 billion) 2. Climate Change Adaptation: Plan evolving, build capacity and increase resilience 3. Transition to a Circular Economy: Double circular material use rates in the next decade 4. Pollution Prevention and Control: Action Plan forthcoming to target zero pollution to water, air, and soil 5. Protection and Restoration of Biodiversity and Ecosystems: New Plan forthcoming to halt biodiversity loss, to preserve and restore ecosystems 6. Sustainable and Protection of Water and Marine Resources: All Europe's lakes, rivers, and ground waters have reached good status by 2027

Source: Compiled by authors based on EU Technical Expert Group on Sustainable Finance (2020) etc.

Table 4: Summary of the EU Sustainable Finance Action Plan

Action Summary	Follow-ups (as of the end of 2019 but updated thereafter wherever possible)
Action 1: Establishing an EU classification system for sustainable activities	
● Develop a taxonomy on mitigation and adaptation activities and some environmental activities. It will then cover remaining environmental and social activities. ● Technical Expert Group (TEG) to publish a report providing a first taxonomy	● In March 2020, TEG published the final version of its report on the EU taxonomy. ● The delegated act on the taxonomy for mitigation and adaptation objectives will be adopted by the Commission by 31 December 2020 and will start applying as of 31 December 2021. The delegated act on the remaining objectives should be adopted by the Commission by 31 December 2021 and will start applying as of 31 December 2022.
Action 2: Creating standards and labels for green financial products	
● Prepare a report on an EU green bond standard ● Specify the content of the prospectus for green bond issuances within the framework of the Prospectus Regulation ● Explore the use of the EU Ecolabel framework for certain financial products	● In June 2019, the TEG published its Report on EU Green Bond Standard which proposes a voluntary, non-legislative EU Green Bond Standard. It also includes recommendations to prospectus. Now the Commission study the report. ● The EU Ecolabel for Financial Products is being developed.
Action 3: Fostering investment in sustainable projects	
● Take further measures that will improve the efficiency and impact of instruments aiming at sustainable investment support in the EU and in partner countries.	● The InvestEU Programme was adopted by the EU Parliament in April 2019, which brought together under one framework 14 EU financial instruments already available.
Action 4: Incorporating sustainability when providing financial advice	
● Amend the Markets in Financial Instruments Directive （MiFID II） and the Insurance Distribution Directive （IDD） to ensure that sustainability preferences are taken into account in the suitability assessment. ● Invite the European Securities Markets Authority (ESMA) to include provisions on sustainability preferences in its guidelines on the suitability assessment.	● In April 2019, EC publishes draft rules to ensure investment firms and insurance distributors consider sustainability topics when advising clients. ● ESMA submitted its advice on 30 April 2019 for amendments to the relevant rules applying to investment firms and investment funds.

<table>
<tr><th colspan="2">Action 5: Developing sustainability benchmarks</th></tr>
<tr><td>Intends to adopt delegated acts, within the framework of the Benchmark Regulation, on the transparency of the methodologies and features of benchmarks
Intends to put forward, subject to the outcome of its impact assessment, an initiative for harmonising benchmarks comprising low-carbon issuers</td><td>EC’s impact assessment of policy alternatives concludes that the requirements for low-carbon and positive carbon impact benchmarks will not have a significant impact on the costs incurred by relevant supervisory authorities.
In November 2019, Benchmarks Regulation was amended and the Low Carbon Benchmark Regulation (LCBR) was introduced. Under the LCBR, EC will lay down the specific minimum standards for the two new benchmarks.</td></tr>
<tr><th colspan="2">Action 6: Better integrating sustainability in ratings and market research</th></tr>
<tr><td>Explore the merits of amending the Credit Rating Agency Regulation to mandate credit rating agencies to explicitly integrate sustainability factors into their assessments
Invites ESMA to: (i) assess current practices in the credit rating market; (ii) include sustainability information in its guidelines on disclosure for credit rating agencies and consider additional guidelines or measures. Carry out a comprehensive study on sustainability ratings and research</td><td>In July 2019, ESMA published its technical advice, which concludes that it would not be advisable to amend the Credit Rating Agencies Regulation.
EC appoints London-based think-tank to conduct sustainability ratings and research study</td></tr>
<tr><th colspan="2">Action 7: Clarifying institutional investors' and asset managers' duties</th></tr>
<tr><td>Table a legislative proposal to clarify institutional investors' and asset managers' duties in relation to sustainability considerations, subject to the outcome of its impact assessment</td><td>In November 2019, the EU Council adopted the Disclosure Regulation, which governs ESG disclosure requirements for financial stakeholders and how they integrate ESG factors into their investment decisions. European supervisory authorities are to come up with rules for the implementation of the Disclosure Regulation.</td></tr>
<tr><th colspan="2">Action 8: Incorporating sustainability in prudential requirements</th></tr>
<tr><td>Explore the feasibility of the inclusion of risks associated with environmental factors in institutions' risk management policies and the potential calibration of capital requirements of banks as part of the Capital Requirement Regulation and Directive.
Invite the European Insurance and Occupational Pensions Authority (EIOPA) to provide an opinion on the impact of prudential rules for insurance companies on sustainable investments, focusing on</td><td>In May 2019, EIOPA published its advice to the EC. EIOPA concludes insurers should reflect the impact of their investments on sustainability, and emphasises the relevance of integrating sustainability risks in investment decisions and underwriting practices.
In December 2019, the European Banking Authority (EBA) published its action plan covering the timelines and milestones for strategy and risk management, key metrics</td></tr>
</table>

mitigation.	and disclosure, stress testing and scenario analysis, and prudential treatment.
Action 9: Strengthening sustainability disclosure and accounting rule-making	
● Launching a fitness check of EU legislation on public corporate reporting, including the Non-Financial Information (NFI) Directive. Revise the guidelines on non-financial information. ● Establish a European Corporate Reporting Lab ● Request asset managers and institutional investors to disclose their consideration of sustainability factors in particular their exposures to climate risks. ● Request European Financial Reporting Authority Group (EFRAG), where appropriate, to assess the impact of new or revised International Financial Reporting Standard (IFRS) on sustainable investments. ● Evaluate relevant aspects of the International Accounting Standards Regulation, in particular exploring specific adjustments to unconducive standards to EU.	● In June 2019, the EC published new guidelines on corporate climate-related information reporting. In February 2020, EC launched a public consultation on the review of the NFR Directive. ● The European Corporate Reporting Lab was established, where stakeholder can identify and share good reporting practices. ● As part of Action 7, asset managers and institutional investors are requested to disclose their consideration of sustainability factors. ● EFRAG reviews contemporary academic literature to explore the possible effects of the regulatory change.
Action 10: Fostering sustainable corporate governance and attenuating short-termism in capital markets	
● Carry out analytical and consultative work to assess: (i) the possible need to require corporate boards to develop and disclose a sustainability strategy; and (ii) the possible need to clarify the rules according to which directors are expected to act in the company's long-term interest ● Invites ESMA to collect information on undue short-termism in capital markets	● In response to the Commission request, ESMA, EBA and EIOPA gave advice on undue short-term pressure from the financial sector on corporations. ● In response to the Commission request, ESMA collected information on sustainable corporate governance and attenuating short-termism in capital markets. The information is included in the report published in December 2019.

Source: Compiled by authors based on EU (n.d.) etc.

4. Observations and Findings: A Comparative Analysis

This section takes a further look at Japan/EU sustainable finance policies taking a comparative approach from a total of six different perspectives. The intention is to conduct comparative analysis on important aspects of sustainable finance policy, but this does not suggest a comparison need be limited to those aspects chosen in this section. The Section 4.1 reflects on the objectives of sustainable finance policy in the two regions and looks at the context in which Japan/EU sustainable finance policies are placed, notably in that of national long-term strategies on climate change and the national action plans on the achievement of SDGs. Section 4.2 focuses on the approach to policy implementation, examining whether Japan/EU favour voluntary or regulatory approaches in their policy measures. Section 4.3 looks at the intended stakeholders and asset classes for Japan/EU sustainable finance policies. Section 4.4 identifies the preferred and chosen type of policy tools, and does so by classifying Japan/EU sustainable finance policies according to the UNEP Inquiry sustainable finance policy categories. Section 4.5 and 4.6 takes a closer look into some of the thematic issues as presented in the UNEP Inquiry sustainable finance policy categories, specifically disclosure (Section 4.5) and classification (taxonomy and labeling) (Section 4.6). The comparative analysis will capture similarities and differences between, and identify key characteristics of, Japan/EU sustainable finance policy.

4.1 Policy Objectives

First, we assess the intended policy objectives of sustainable finance policies in Japan/EU. This section will look at the rationale drawn upon when promoting sustainable finance policy and the extent to which the objectives focus mainly on climate or on broader sustainability objectives.

One of the most widely accepted rationales for driving sustainable finance, and or the consideration of ‘environmental, social, and governance (ESG)’ factors in financial investment and lending, is the economic argument. Proponents argue that the consideration of ESG issues (or non-financial information) is, in fact, the consideration of (future) financial risks and opportunities corporates face in the world today, and therefore that of those which investors must also consider (GPIF, n.d.). This could be looking at the imminent risk and actual impact of climate change on business, or consumers expecting businesses to ensure there is no child labour and or other human rights violations in the sourcing and creation of their products. Equally, it could be whether consideration of ESG factors is necessary to assess sound business and the investment in such businesses. Based on this reasoning, practicing sustainable finance, or making ESG considerations, is a logical conclusion for even the ‘traditional’ profit-seeking investor. This is the rationale usually emphasised in attempts to broaden the ESG market and to mainstream ESG. In short, ESG is employed to avoid losses and stranded assets, and to realise profit and growth. This rationale can sit comfortably within the currently dominant economic paradigm centered on market principle and growth.

At the same time, there is the ‘ethical’ or ‘moral’ argument, where the emphasis lies more in the social responsibility of companies, and a clear priority is given to addressing the social and environmental global challenges as well as to providing the funding for the means necessary to do this. This includes responsibility for past actions, which could have potential legal implications, and responsibility for the future, which is more ethical in nature. This rationale can be accompanied by a recognition of the limitations on the role of markets, and or capitalism in its current state. Here, sustainable finance is seen as an approach to internalise (to an extent) externalities and to progressively transform the current financial / economic system which is environmentally and socially unsustainable. Up to now, public finance has been the traditional source of funding for global environmental and development challenges. However, it has also been recognised that it is not nearly enough to adequately address current needs, bolstering the argument in favour of mobilising private sector finance. In this discussion, sustainable finance policy is seen as an enabler for addressing global environmental and social challenges, with policy goals as agreed in the Paris Agreement and SDGs.

Although the above arguments originate from differing motivations, they are no doubt interrelated, and converge in practice and in the actual considerations to be made. Most stakeholders, and especially governments, draw from both arguments, albeit with differences on emphasis and nuance, when promoting sustainable finance policies. Both arguments can be found in key sustainable finance policy documents for the EU and Japan (European Commission, n.d.; High Level Meeting on ESG Finance, 2018).

Next, we look further at what Japan/EU indicate as the objective of their sustainable finance policies; the extent to which the objectives focus mainly on climate or on broader sustainability objectives, and possible similarities and differences.

The Paris Agreement and the SDGs are globally agreed goals that both Japan and the EU have committed to. The EU has set forth the aforementioned six environmental objectives for sustainable finance. The four goals other than climate mitigation and adaptation cover some of the goals addressed in the SDGs, but lean heavily on environmental issues, and are yet to be developed in the frame of the EU Taxonomy. This currently gives EU sustainable finance policy a strong climate change context. For Japan, sustainable finance is currently mentioned in the context of addressing climate change but equally in its efforts for Regional Revitalisation, which is one of the main pillars for Japan's national action plan on the SDGs (see Section 2).

Regarding the Paris Agreement, Japan and the EU have submitted their LTS to the UNFCCC in June 2019 and March 2020 respectively, in accordance with Article 4.19 of the Paris Agreement. The long-term climate goals of Japan (2019) and the EU (2020) under the Paris Agreement are to achieve 80% of GHG emission reductions and climate neutrality, by mid-century respectively. Japan has a further goal of transforming into a decarbonised society as early as possible in the second half of this century. As discussed earlier, Japan's LTS has a dedicated section on Green Finance (see Section 2), and the EU has been discussing sustainable finance in the draft LTS (i.e. strategic long-term visions of "A Clean Planet for all" (2018)) and also in various spaces within the EU including the HLEG (see Section 3). Both EU and Japan place finance as one of the necessary and key pillars to enable the transition and achieve the reduction targets.

However, one critical difference between the Japan/EU LTS regarding finance can be found in the aspect of investment mobilisation. In this regard, Japan's LTS touches on general support for R&D but does not elaborate on any specific implementing policies. Neither does Japan's LTS mention any quantitative goals regarding sustainable finance. On the other hand, for the EU, investment receives exclusive focus in the LTS accompanied with quantitative figures. These include: the mention of the European Investment Bank (EIB) announcement intending to support EUR 1 trillion of investment in climate action between 2021 and 2030 and the aim to facilitate EUR 100 billion through the Just Transition Mechanism (European Commission, 2020). The EU SFAP also indicates EUR 180 billion as the yearly investment gap to achieve EU climate and energy targets (European Commission, 2018a).

In summary, we can say the following. First, EU's sustainable finance policy currently puts heavy emphasis on climate action (environment), whereas Japan's policy is more distributed between climate action and a wider sustainability agenda (i.e. SDGs and/or Regional Revitalization). Second, both the EU and Japan place finance as a key pillar for climate transition and achieving reduction targets. However regarding investment mobilisation, Japan has not publicly committed to quantitative goals, while the EU has set out clear quantitative targets, both in the amount of finance necessary and in mobilisation through different funds and mechanisms. The explicit mention of quantitative investment mobilisation targets for the EU, and the lack thereof in the case of Japan, is an important distinction to be made.

4.2 Approach to Policy Implementation: Voluntary or Regulatory

Next, we take a look at the approach taken to policy implementation for Japan/EU policies, and more specifically, identifying whether a policy is regulatory (mandatory and required by law for an intended party to follow) or voluntary in its nature.

The EU has several types of policies, some are binding, others are not; some apply to all EU countries, and others to just a few (Table 5). The exercise undertaken in this report classifies EU policy as being either regulatory or voluntary based on the type of policies. If the intended outcome policies of a particular EU SFAP item are 'regulations', 'directives' or 'decisions', they are classified as 'regulatory' in the sense that at least they are binding to those applicable or in the sense that countries must respond. If they are 'recommendations' or 'opinions', they are classified as 'voluntary' in the sense that they do not impose any legal obligations and that they are not binding for countries and or companies.

Classification results according to policy nature is clear. All (41 out of 41) of Japan's sustainable finance policies are voluntary in contrast to those of the EU, where about half (48%) (10 out of 21) are voluntary, while half are regulatory.[30] Policy classification results according to policy nature can be found in Table 6 for Japan and Table 7 for the EU.

[30] It should be noted that the FSA amended the "Cabinet Office Order on Disclosure of Corporate Affairs"（「企業内容等の開示に関する内閣府令」）in January 2019, enhancing financial information and narrative (non-financial) information in annual securities reports. This regulatory measure covers non-financial (including ESG) information as part of narrative information.

Table 5: EU Policy Type Classification[31]

Regulatory	Regulations: A binding legislative act. It must be applied in its entirety across the EU.
	Directives: A legislative act setting out a goal that all EU countries must achieve. However, it is up to the individual countries to devise their own laws on how to achieve these goals.
	Decisions: Binding for those to whom it is addressed (e.g. an EU country or an individual company) and is directly applicable
Voluntary	Recommendations: Not binding. A recommendation allows the institutions to make their views known and to suggest a line of action without imposing any legal obligation on those to whom it is addressed.
	Opinions: An instrument that allows the institutions to make a statement in a non-binding fashion, in other words without imposing any legal obligation on those to whom it is addressed. An opinion is not binding. It can be issued by the main EU institutions (Commission, Council, Parliament), the Committee of the Regions and the European Economic and Social Committee.

4.3 Intended Stakeholders and Asset Classes

We now look at the intended stakeholders and prioritised asset classes of Japan/EU sustainable finance policies. Financial institutions are typically the primary entity to practice sustainable investment and lending, and thus are often perceived as the primary stakeholders in sustainable finance policy. Globally, institutional investors with a relatively longer investment horizon have played a critical role in the development of sustainable finance practice, and sustainable finance policy. Corporates are also another important stakeholder group. Corporates engage in sustainable business and are responsible for disclosing the necessary information enabling the sustainable investment/lending decisions of the financiers. Both Japan and the EU see institutional investors as the primary stakeholders while recognising and engaging with industry corporates on sustainable business practices and disclosure. Below, we look at what distinctions can be further made between Japan and the EU regarding intended stakeholders.

In Japan, sustainable finance policy more recently has been placing considerable focus on banks in addition to institutional investors. This is understandable given indirect finance generally plays a prominent role in financing for corporates in Japan. In Japan, SMEs account for 99.7% of companies (approximately 3.5 million companies) and 68.8% of employment (approximately 32 million people), supporting the foundation of the Japanese economy (METI, 2019b). SMEs typically depend on banks for financing. This is additionally important in the context of Regional Revitalisation. The recommendations issued in a report by the Cabinet Office's 2019 "Regional Revitalization SDGs / ESG Finance Research and Study Group" underlines the importance of the role of SMEs in addressing regional challenges through the SDGs. Regional banks that provide financing to SMEs, which are not publicly listed nor large enough to issue bonds, are expected to provide SMEs with guidance and access

[31] EU policies were classified as regulatory or voluntary, according to the following distinction: (https://europa.eu/european-union/eu-law/legal-acts_en)

to sustainable finance. The report also emphasises the need for regional banks to strengthen their capacity as business consultants for SMEs working to achieve the Paris Agreement and SDGs.

Lending practices similar to the concept of Sustainability Linked Loans such as the 'Environmental Rating Loan' have been employed by the Development Bank of Japan (DBJ) since 2007. With Environmental Rating Loans, DBJ assesses the environmental activities of borrowers and, based on the assessment results, grant preferential interest rates. The Ministry of the Environment has supported the initiative via an interest subsidy programme. In 2019, the scope of such financing was expanded to include a broader range of sustainable projects, and an incentive policy called an "ESG Regional Finance Interest Subsidy Programme" was launched to provide subsidies for banks to grant preferential interest rates to local businesses delivering environmental and social impacts (MOE, n.d.)

This importance placed on banks is clearly reflected when assessing existing policy according to intended asset class, with 17% (10 out of 60) of Japan's policies explicitly addressing 'loans' , in contrast to 7% (2 out of 29) for the EU. Policy classification results according to asset class can be found in Table 6 for Japan and Table 7 for the EU.

A notable characteristic for the EU with regards to stakeholders, and considerably different in comparison with Japan, is the underlying perception and role expected to be played by retail and individual investors. This is reflected in the direction taken in regards to taxonomy and labelling. A total of 93% of Europeans see climate change as a serious issue (European Commission, 2019b). EU sustainable finance policies are backed by not only environmental-conscious institutional investors such as members of Climate Action 100+, but by EU retail investors who own 40% of total financial assets in the EU (EU HLEG on Sustainable Finance, 2018). Evidence shows that most EU retail investors hope to invest in a sustainable manner. A large majority of retail investors are not only concerned about sustainability but expect to leverage their roles as shareholders and investors to generate positive change in the real economy (Dupre, 2019). However, in the European ESG funds market, retail funds account for less than 2% and national legislation on the role of financial advisors do not require them to question clients' preferences (EU HLEG on Sustainable Finance, 2018). EU sustainable finance policy aims to address this in various ways including incentivising financial advisors to respond to these sustainability considerations. The EU SFAP includes Action 2, 'creating standards and labels for green financial products' (Table 4), which is intended to support and encourage retail investors to select sustainable finance.

In summary, high expectations are placed on the shoulder of banks in furthering sustainable finance in Japan, reflecting Japan's financial landscape and the objective of sustainable finance policy. For the EU, very few of the actions set out in the Action Plan specifically focus on the role of banks. Consumers and individual investors are more visible stakeholders for the EU, and they are expected to play an important role in guiding finance. EU policy measures, especially those that concern labelling, bear this out. This is in stark contrast to Japan, where retail investors have not played a visible role in recent ESG finance related developments, and receive limited, if any, mention in related policy documents.

Table 6: Japan Sustainable Finance Policy Categorization

	Policy (Document Title / Program Title)	Relevant Government Agency	Month/Year Implemented	Policy Type		Asset Class					UNEP Inquiry Sustainable Finance Policy Categorization				
				Regulatory	Voluntary	Unspecified	Equity	Debt	Loans	Real Estate	Taxonomies and Labeling	Policy Incentives	Products, Tools and Capacity Building	Disclosure	Unspecified
1	"The Long Term Strategy Under the Paris Agreement" (Cabinet Decision Document)	Cabinet Office	6/2019		✓	✓						✓	✓	✓	
2	"Basic Ways of Thinking in Promoting SDGs Finance Towards Regional Revitalization" (Study Group Report)	Cabinet Office	3/2019		✓		✓	✓	✓			✓	✓		
3	Regional Revitalization SDGs Finance Research and Study Group	Cabinet Office	8/2019 - ongoing		✓	✓									✓
4	"Principles for Financial Action for the 21st Century"	MOE	10/2011		✓	✓							✓	✓	
5	"Introduction to ESG Investment" (ESG Working Group Report)	MOE	1/2017		✓		✓	✓					✓	✓	
6	"Recommendation from the High Level Meeting on ESG Finance - Toward becoming a big power in ESG Finance" (Outcome Report / Recommendations)	MOE	7/2018		✓		✓	✓	✓			✓	✓	✓	
7	"Strategy toward becoming a big power in ESG finance" (Statement)	MOE	3/2019		✓		✓	✓	✓				✓	✓	
8	ESG Finance High Level Panel	MOE	2/2019		✓		✓	✓	✓						✓
9	"Green Bond Guidelines 2017/2020"	MOE	3/2020		✓			✓			✓		✓	✓	
10	"Green Loan and Sustainability Linked Loan Guidelines 2020"	MOE	3/2020		✓			✓	✓		✓		✓	✓	
11	Pilot Project for Green Bond Issuance	MOE	4/2017 - 3/2018		✓			✓			✓		✓		
12	Japan Green Bond Awards	MOE	3/2019		✓			✓			✓		✓		
13	Financial Support Program for Green Bond Issuance	MOE	4/2018 - ongoing		✓			✓				✓			
14	Registration System of Green Bond Issuance Supporters	MOE	4/2018 - ongoing		✓			✓			✓				
15	Financial Support Program for New Green Finance Schemes	MOE	4/2019 - ongoing		✓	✓						✓	✓		
16	"Utilizing Environmental Information for the Evaluation of Corporate Value" (Report)	MOE	5/2019		✓		✓	✓					✓	✓	
17	"Perspective on Evaluating Environmentally Sustainable Companies" (Report)	MOE	7/2019		✓		✓	✓					✓	✓	
18	"Practical Guide for Scenario Analysis in line with TCFD Recommendations"	MOE	3/2019		✓		✓	✓					✓	✓	
19	Support Program for Climate Risk / Opportunity Assessment and Scenario Analysis in line with TCFD Recommendations	MOE	4/2018 - 3/2019		✓	✓						✓	✓	✓	
20	ESG Dialogue Platform	MOE	3/2016 - ongoing		✓	✓							✓	✓	
21	"Findings from Case Studies on ESG Regional Finance" (Report)	MOE	3/2019		✓		✓		✓				✓		
22	ESG Regional Finance Interest Subsidy Programme	MOE	4/2019 - ongoing		✓				✓			✓			
23	ESG Regional Finance Promotion Program	MOE	3/2019 - ongoing		✓				✓			✓	✓		
24	"Guidance on the Assessment of Community Regenerative Energy Projects" (Revised Version 2019)	MOE	3/2019		✓				✓				✓		
25	"Final Report of the Ito Review 'Competitiveness and Incentives for Sustainable Growth: Building Favorable Relationships between Companies and Investors' Project" (The Ito Review)	METI	8/2014		✓		✓						✓	✓	
26	"The Ito Review 2.0"	METI	10/2017		✓		✓						✓	✓	
27	"Guidance for Collaborative Value Creation"	METI	5/2017		✓		✓						✓	✓	
28	Study Group for Discussing Approaches to Making More Substantial the Dialogues for Creation of Sustainable Corporate Value	METI	11/2019 - ongoing		✓		✓						✓	✓	
29	"Guidance for Climate-related Financial Disclosure (TCFD Guidance)"	METI	12/2018		✓	✓							✓	✓	
30	Declaration of Active Fund Managers	METI	5/2018		✓		✓						✓		
31	"Guidance for Collaborative Value Creation by Biotech and Investors"	METI	7/2019		✓		✓						✓		
32	"Diversity 2.0 Action Guidelines"	METI	6/2018		✓		✓						✓		
33	"Practical Guidelines for Corporate Governance System (CGS Guidelines)"	METI	3/2017		✓		✓						✓		
34	Forum for Integrated Corporate Disclosure and ESG Dialogue	METI	12/2017		✓		✓						✓	✓	
35	"Guide for SDG Business Management"	METI	5/2019		✓	✓							✓		
36	"Concept Paper on Climate Transition Finance Principles"	METI	3/2020		✓		✓	✓	✓		✓		✓		
37	"Clarification of Legal Issues Related to the Development of Japan's Stewardship Code"	FSA	2/2014		✓		✓	✓					✓		
38	"Revision of the Corporate Governance Code and Establishment of Guidelines for Investor and Company Engagement" (Recommendations)	FSA	3/2018		✓	✓							✓		
39	"Japan's Stewardship Code 2014/2017/2020"	FSA	3/2020		✓		✓	✓					✓		
40	"Guidelines for Investor and Company Engagement"	FSA	6/2018		✓		✓	✓					✓		
41	"Corporate Governance Code 2015/2018"	FSA	6/2018		✓	✓							✓		
				0	**41**	**10**	**22**	**18**	**10**	**0**	**6**	**8**	**36**	**18**	**2**

Table 7: EU Sustainable Finance Policy Categorization

	Policy (Document Name / Program Name / Initiative Name)	Relevant Government Agency	Month/Year Implemented OR Action Status	Policy Type		Asset Class					UNEP Inquiry Sustainable Finance Policy Categorization				
				Regulatory	Voluntary	Unspecified	Equity	Debt	Loans	Real Estate	Taxonomies and Labeling	Policy Incentives	Products, Tools and Capacity Building	Disclosure	Unspecified
1	Long-term low greenhouse gas emission development strategy of the European Union and its Member States	DG CLIMA	3/2020		✓	✓									✓
2	A Clean Planet for all: A European strategic long-term vision for a prosperous, modern, competitive and climate neutral economy	DG CLIMA	11/2018		✓	✓									✓
	(Action 1) Establishing an EU classification system for sustainable activities														
3	Develop a taxonomy on mitigation and adaptation activities and some environmental activities	DG FISMA	ongoing	✓			✓	✓	✓		✓			✓	
4	Technical Expert Group to publish a report providing a first taxonomy	DG FISMA	3/2020	✓			✓	✓	✓		✓			✓	
	(Action 2) Creating standards and labels for green financial products														
5	Prepare a report on an EU green bond standard	DG FISMA	6/2019		✓			✓			✓			✓	
6	Specify the content of the prospectus for green bond issuances within the framework of the Prospectus Regulation	DG FISMA	6/2019	✓				✓			✓			✓	
7	Explore the use of the EU Ecolabel framework for certain financial products	DG FISMA	ongoing	✓		✓					✓				
	(Action 3) Fostering investment in sustainable projects														
8	Take further measures that will improve the efficiency and impact of instruments aiming at sustainable investment support in the EU and in partner countries.	DG FISMA	ongoing		✓	✓	✓	✓				✓	✓		
	(Action 4) Incorporating sustainability when providing financial advice														
9	Amend the Markets in Financial Instruments Directive (MiFID II) and the Insurance Distribution Directive (IDD) to ensure that sustainability preferences are taken into account in the suitability assessment, subject to the outcome of impact assessment. Invite the European Securities Markets Authority (ESMA) to include provisions on sustainability preferences in its guidelines on the suitability assessment.	DG FISMA	ongoing	✓		✓							✓		
	(Action 5) Developing sustainability benchmarks														
10	Intends to adopt delegated acts, within the framework of the Benchmark Regulation, on the transparency of the methodologies and features of benchmarks. Intends to put forward, subject to the outcome of its impact assessment, an initiative for harmonising benchmarks comprising low-carbon issuers.	DG FISMA	11/2019	✓			✓	✓			✓		✓	✓	
	(Action 6) Better integrating sustainability in ratings and market research														
11	Explore the merits of amending the Credit Rating Agency Regulation to mandate credit rating agencies to explicitly integrate sustainability factors into their assessments. Invites ESMA to: (i) assess current practices in the credit rating market; (ii) include environmental and social sustainability information in its guidelines on disclosure for credit rating agencies and consider additional guidelines or measures, where necessary. Carry out a comprehensive study on sustainability ratings and research.	DG FISMA	ongoing	✓				✓						✓	
	(Action 7) Clarifying institutional investors' and asset managers' duties														
12	Table a legislative proposal to clarify institutional investors' and asset managers' duties in relation to sustainability considerations, subject to the outcome of its impact assessment	DG FISMA	11/2019	✓			✓	✓			✓		✓	✓	
	(Action 8) Incorporating sustainability in prudential requirements														
13	Explore the feasibility of the inclusion of risks associated with climate and other environmental factors in institutions' risk management policies and the potential calibration of capital requirements of banks as part of the Capital Requirement Regulation and Directive.	DG FISMA	12/2019	✓		✓							✓		
14	Invite the European Insurance and Occupational Pensions Authority (EIOPA) to provide an opinion on the impact of prudential rules for insurance companies on sustainable investments, with a particular focus on climate change mitigation.	DG FISMA	5/2019	✓		✓							✓		
	(Action 9) Strengthening sustainability disclosure and accounting rule-making														
15	Launching a fitness check of EU legislation on public corporate reporting	DG FISMA	2/2018		✓	✓					✓			✓	
16	Revise the guidelines on non-financial information	DG FISMA	6/2019		✓	✓					✓			✓	
17	Establish a European Corporate Reporting Lab as part of the European Financial Reporting Advisory Group (EFRAG)	DG FISMA	ongoing		✓	✓							✓	✓	
18	Request asset managers and institutional investors to disclose how they consider sustainability factors in their strategy and investment decision making process, in particular for their exposures to climate change-related risks	DG FISMA	11/2019	✓		✓								✓	
19	Request EFRAG, where appropriate, to assess the impact of new or revised International Financial Reporting Standards (IFRSs) on sustainable investments.	DG FISMA	11/2019		✓	✓							✓	✓	
20	Within the fitness check of EU legislation on public corporate reporting, evaluate relevant aspects of the International Accounting Standards Regulation	DG FISMA	2/2018		✓	✓							✓	✓	
	(Action 10) Fostering sustainable corporate governance and attenuating short-termism in capital markets														
21	Carry out analytical and consultative work with relevant stakeholders to assess: (i) the possible need to require corporate boards to develop and disclose a sustainability strategy; and (ii) the possible need to clarify the rules according to which directors are expected to act in the company's long-term interest. Invites ESMA to collect information on undue short-termism in capital markets	DG FISMA	8/2019(ESMA) 12/2019(EBA, EIOPA)		✓	✓					✓				
				11	**10**	**14**	**5**	**8**	**2**	**0**	**10**	**1**	**9**	**13**	**2**

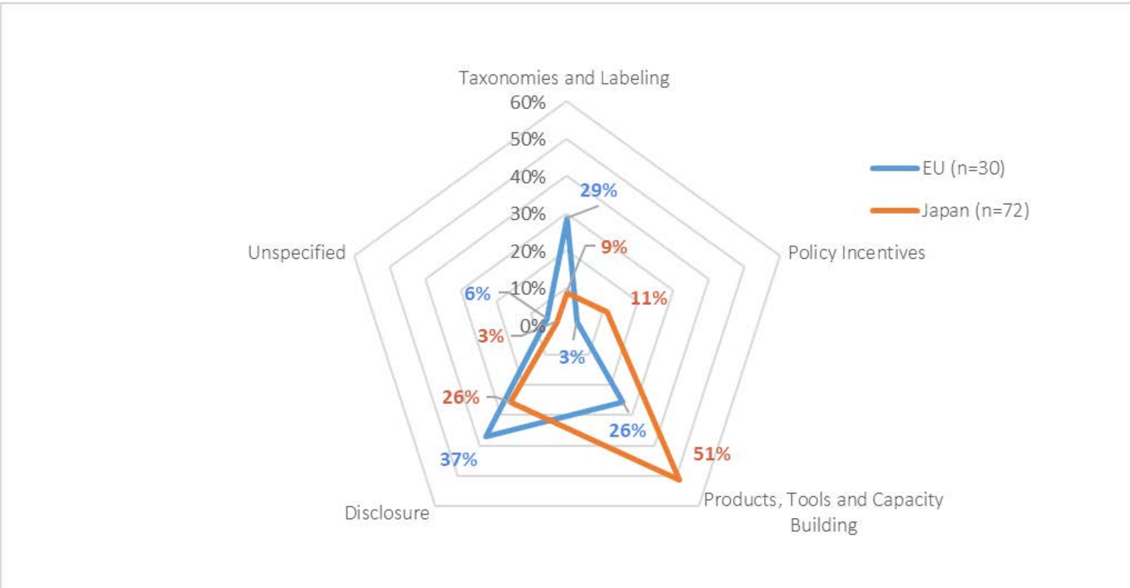
4.4 Preferred Policy Tools

Next, we identify the preferred policy tools for Japan and the EU. This exercise utilises the sustainable finance policy categories set out by UNEP Inquiry. The UNEP Inquiry, in its Sustainable Finance Progress Report (March 2019), groups sustainable finance policy into the following four policy categories: (1) taxonomies and labeling; (2) policy incentives; (3) disclosure; and (4) products, tools and capacity-building. Here we classify individual Japan/EU policies into five policy categories, with the addition of an 'unspecified' category to the aforementioned four.

A total of 41 policy components (including policy documents, programmes and initiatives) were included for Japan and 21 for the EU. There are cases where a policy can be, and has been, classified into a number of policy categories as the categories are not mutually exclusive (for example, there can be a capacity-building tool on disclosure, i.e. checking both 'capacity-building' and 'disclosure' boxes). As a result, for Japan, the 41 policies were given a total of 70 classifications, and for the EU, the 21 policies were given a total of 35 classifications.

Results of the UNEP Inquiry sustainable finance policy classification can be found in Table 6 for Japan and Table 7 for the EU. The summary results in percentages are plotted on a radar chart shown in Chart 1. The results indicate that EU policies deal notably with disclosure (37%) but also with the taxonomy element (29%). On the other hand, Japan has limited policy work on taxonomies and labeling (9%), but heavily leans on products, tools and capacity-building (51%), followed by disclosure (26%) and policy incentives (11%).

Chart 1: Results based on UNEP Sustainable Finance Policy Categories



The largest share of Japan's sustainable finance policy is classified as ‘products, tools and capacity building’. These can be understood as a set of policies to provide the necessary support to facilitate private sector-led market formation. The most obvious examples are the various policy measures delivered by MOE for the purposes of promoting the growth of the green bonds market in Japan since 2017. Green bond markets overseas had seen earlier development, so an integrated effort was made for the Japanese green bond market to ‘catch up’ to global trends. Measures included the development of the Japanese Green Bond Guidelines based on the ICMA Green Bond Principles, which had already grown into the international de facto standard in the private sector, subsidies to cover additional issuance costs such as external reviews, and the development of an information platform as well as the implementation of awards to showcase good practices.

The largest share of EU’s sustainable finance policy is classified as ‘disclosure’. One of the aims of the EU SFAP is to ‘foster transparency and long-termism in financial and economic activity’ (European Commission, 2018a). The EU SFAP sees the transparency of market participants’ activities, especially corporates, as necessary for a well-functioning financial system. Furthermore, it expects the enhancement of transparency to reduce undue pressure for short-termism by promoting better informed and more responsible investment decisions. This will be discussed in Section 4.5 in further detail. The second largest share of EU’s sustainable finance policy is classified as ‘taxonomies and labelling’. As mentioned above, the EU taxonomy acts as a ‘pre-condition’ for other policies or initiatives in the EU SFAP, and thus these results are as expected (European Commission, 2018a). The taxonomy will be discussed in further detail in Section 4.6.

4.5 Approach to Disclosure

Now we take a closer look at the approaches taken on disclosure, a critical and fundamental component of sustainable finance policy. According to the UNEP Inquiry classification exercise undertaken in Section 4.3, 26% of Japan’s policies, and 37% of EU’s policies deal with disclosure.

Policies related to disclosure in Japan take the approach of encouraging and supporting voluntary efforts by companies and investors, aligning with previous findings (See Section 4.2 and Section 4.4). At present, there is no visible policymaking process or strong public debate in favour of making disclosure mandatory in Japan. However, the Japanese government, including the METI, the MOE and also the FSA, have all taken extensive efforts supporting technicalities and approaches to disclosure, many in connection with the TCFD recommendations.

METI's Guidance for Climate-related Financial Disclosure (TCFD Guidance), and MOE's Practical Guide for Scenario Analysis in line with TCFD Recommendations as well as the Support Program for Climate Risk / Opportunity Assessment and Scenario Analysis in line with TCFD Recommendations, are specific policies and guidance documents produced in relation to the TCFD. The FSA has also participated as an observer, alongside METI and MOE, in the TCFD Consortium, a private-sector initiative launched in May 2019. The Japanese government hosted the first TCFD Summit in October 2019 in Tokyo. There is a government-wide approach to Japan’s TCFD related efforts, resulting in a strong TCFD focus for Japan’s disclosure related sustainable finance policy.

For the EU, transparency enhancement is one focus of the EU SFAP. Related components in the EU SFAP are: (1) the establishment of a European Corporate Reporting Lab where companies and investors can share best practices on sustainability reporting, such as the climate-related disclosure in line with the TCFD's recommendations; (2) a fitness check on EU legislation on public corporate reporting (Action 9); (3) the revision of guidelines on non-financial information, which should provide further guidance to companies on how to disclose climate-related information, in line with the TCFD and the EU Taxonomy (Action 9); and (4) a legislative proposal to clarify the duties of institutional investors and asset managers in relation to sustainability considerations. This would include how they consider sustainability factors in their strategy and investment decision-making process, in particular for their exposure to climate change-related risks (Action 7 and 9).

Of these, (2) (3) (4) take a regulatory approach. In response to (4), the EC set out the Proposal for a Regulation of the European Parliament and of the Council on Disclosures relating to Sustainable Investments and Sustainability Risks and Amending Directive (EU) 2016/2341 (Proposal on Disclosure Regulation) in May 2018 (European Commission, 2018c). The Proposal on Disclosure Regulation requires financial market participants to disclose sustainability risks and disclosures in a harmonised way. There are many existing EU directives related to sustainability considerations by institutional investors and asset managers. However, the Proposal on Disclosure Regulation sees a lack of transparency on how institutional investors, asset managers and financial advisors consider sustainability risks in their investment decision-making or advisory processes. This hinders their clients from getting the full information they need to inform their investment decisions or recommendations (European Commission, 2018c). Hence, it added requirements to existing elements to the relevant legislation.

Regarding (3) on revision of the guidelines on non-financial information, the EC published new guidelines on corporate climate-related information reporting in June 2019. The guidelines are not mandatory but the new guidelines supplement the Non-Financial Reporting Directive (NFRD), which is a regulatory measure (2014/95/EU). The NFRD requires large public interest entities with over 500 employees (listed companies, banks, and insurance companies) to disclose certain non-financial information. It covers approximately 6,000 large companies and groups across the EU. The newly published guidelines on non-financial information provide companies with guidance consistent with the NFRD, the TCFD recommendations and the EU taxonomy (European Commission, 2019a).

In summary, it can be said that Japan’s approach to disclosure is currently voluntary with measures heavily aligned with the TCFD, while EU’s approach to disclosure is regulatory and builds on measures preceding the recent EU SFAP.

4.6 Approach to Classification, Labelling and Taxonomies

Finally, we take a look at the approach taken to classification, labeling, or the establishment of a taxonomy. According to the UNEP Inquiry categorisation exercise undertaken in Section 4.3, some 9% of Japan’s policies, and 29% of EU’s policies deal with classification, or taxonomies and labelling.

For the EU, the EU taxonomy, as a unified EU classification system, is recognised as the most important and urgent action of the EU SFAP by the EC (European Commission, 2018b). The Regulation Proposal of the Taxonomy was submitted by the EC in May 2018 and adopted by the EU Parliament. In June 2019, the Taxonomy Technical Report was published by the technical expert group (TEG) on sustainable finance (2019), which was mandated by the EU to develop recommendations for the taxonomy. The EU taxonomy was agreed in December, 2019.

The EU taxonomy will be applied to (a) measures adopted by Member States or by the EU setting out any requirements on market actors in respect of financial products or corporate bonds that are marketed as environmentally sustainable and (b) financial market participants offering financial products as environmentally sustainable investments or as investments having similar characteristics. Thus, it has an implication not only for the financial market but the wider industry. The EU taxonomy will also be applied to other components of the EU SFAP. For instance, the latest TEG report on the EU Green Bond Standard requires alignment of green projects with the EU taxonomy. In addition, the newly published guidelines on non-financial information provide companies with guidance consistent with the NFRD, the TCFD recommendations and the EU taxonomy (Action 9) (European Commission, 2019a). As such, the EU taxonomy will be influential in many ways and on many sectors beyond the EU.

The EU taxonomy can be described as unique in comparison to other existing forms of green classification or categorizations. The EU taxonomy is unique in the clarity it provides and in the level of ambition it sets when approaching classification. The EU taxonomy establishes a clear definition of 'green' by setting numerical thresholds in line with the Paris Agreement. Other green classifications such as ICMA's Green Bond Principles list eligible green project 'categories' as a non-exclusive list. China's 2019 Green Industry Guiding Catalogue does not have numerical thresholds. The EU taxonomy includes economic activities: (1) activities that are already low-carbon (i.e. compatible with net zero CO2 economy by 2050); (2) activities that contribute to a transition to a net-zero emissions economy in 2050; and (3) activities that enable low-carbon performance or enable substantial emissions reductions. Life-cycle emissions are considered to establish the criteria of these activities by the TEG. Activities also need to meet the 'do no significant harm' criteria and conduct due diligence to avoid any violation to the social minimum safeguards i.e. eight fundamental Conventions identified in the ILO's Declaration on Fundamental Rights and Principles at Work etc. The inclusion of such high-ambition criteria and 'do no significant harm' criteria in the proposed EU taxonomy indicates activities qualifying as compliant to the EU taxonomy have 'positive impact'. In this sense, the EU taxonomy is a significant step forward in an effort to making mainstream finance impact-driven (UNEP FI, 2019).

The objective of making finance flows in line with the Paris Agreement, is emphasised throughout discussions of the EU SFAP. The EU's approach to defining sustainable finance is anchored in the level of emissions — and numerical thresholds — which limit global warming to 2℃. Nathan Fabian, in presenting the EU taxonomy at the Stakeholder Dialogue on Sustainable Finance,[32] could not emphasise enough the importance of having 'clear, explicit, policy goals.' Fabian stated that 'to go

[32] The Stakeholder Dialogue on sustainable finance- Final reports of the Technical Expert Group was held on 12 March 2020.

somewhere, you need to know where you are going by when. Transition to what by when is the essential question. Though there may be benefit in making small steps in the journey, ultimately we need to know the end we are trying to achieve'.

In the case of Japan, there is no existing 'taxonomy' in the country's sustainable finance policy. However, the recently released 'Concept Paper on Climate Transition Finance Principles,' presented by the Study Group on Environmental Innovation Finance in Japan established under METI, could be indicative of a forthcoming approach to classification for Japan, one which could have implications, both on practice and future policy direction of sustainable finance.

The above-mentioned Concept Paper highlights the importance of 'facilitating investments into a wider range of areas (including energy, components, raw materials, and service.)' The paper takes note of instances where the division of labour resulting from international trade has seen countries reducing GHG emissions domestically but importing products embedding CO2emissions from other countries. It further argues that 'with respect to GHG emitting industries and sectors, it is vital to promote finance in areas where proper measures are adopted or improvements are made towards lowering emissions' to ensure the reduction of GHG emissions globally.

The paper proposes drafting an international principle which can be applied flexibly, and suggests three standards on which the principle could be based.

1) Standard for alignment with the Paris Agreement: finance for a transition towards achieving the Paris Agreement goals and the reduction target of each country based on the Paris Agreement;

2) Standard for business entities: finance for a business entity pursuing a transition towards achieving the Paris Agreement goals;

3) Standard for projects: finance for a project in a GHG-emitting industry or sector that achieves or implements the level of best performance of low GHG emissions in line with a reputable global or regional standard for such a sector or industry.

Whether the standard for business entities and the standard for projects should both be satisfied depends on asset classes or designs of each financial instrument. The proposal differs from the approach taken in the EU taxonomy in a number of ways. For example, it includes standards for each business entity itself rather than solely economic activity, and it also includes projects or activities that achieve the level of 'best performance' in the industry. How these would reconcile with being in alignment with the Paris Agreement is yet to be seen.

In summary, the taxonomy is at the heart of the EU's sustainable finance policy and represents its characteristic of having clear quantitative goals in relation to the Paris Agreement. The existence of a classification system based on quantitative goals for the EU, and the lack thereof for Japan (currently) is an important distinction to be made. Ongoing discussions on transition finance in Japan need be monitored closely given the implications on the direction of sustainable finance.

5. Conclusion

The purpose of this report is to serve as a reference to those interested in understanding sustainable finance policy, and especially that of Japan and the EU. We believe that there is added value in this report particularly in regard to the review of Japanese policy which brings together the otherwise separate bodies of work across the multiple ministries engaged in work related to sustainable finance. The comparative approach taken to assess Japan/EU policy is meant to aid in highlighting the characteristics of Japan/EU policy respectively. A summary of the findings is set out below.

In Japan, policy related to sustainable finance has been undertaken mainly by the Ministry of the Environment, the Ministry of Economy and Trade, the Financial Service Agency and the Cabinet Office. The Government Pension Investment Fund, as an incorporated administrative agency is not technically part of the government but can be said to be a government-related organisation, and coupled with its market presence, has played an influential role. Sustainable finance policy is anchored in the objective of tackling climate change, but equally in pursuing Regional Revitalisation, a priority objective of the Abe administration and also positioned as one of the three pillars in Japan's national action plan on the SDGs. With regard to financial institutions, Japan's policies especially highlight banks, given Japan's financial landscape and the relevance of SMEs and regional banks in the context of Regional Revitalisation. Quantitative targets have not been established, all policy measures are voluntary in nature, and are structured to provide guidance and technical support to the private sector and strengthen its competitiveness in the global context. This final characteristic is a recurring trait throughout Japan's sustainable finance policy, including those existing policies related to disclosure and ongoing policy discussions around defining and supporting transition finance. The approach taken to define transition finance can be indicative of the direction of Japan's sustainable finance policy and could be further distinguished in contrast to the policy direction of the EU.

In the EU, policy related to sustainable finance is centered on the EU Action Plan on Sustainable Finance (EU SFAP) adopted in March 2018, which includes a range of policies. The process related to the EU SFAP has been undertaken by the Directorate-General for Financial Stability, Financial Services and Capital Markets Union, which is the Commission department responsible for EU policy on banking and finance. Six environmental objectives have been presented as sustainable finance policy objectives by the EU. Work has commenced focusing on the first two objectives of climate mitigation and adaptation, thus giving current EU sustainable finance policy a strong focus on climate focus. The EU SFAP has clear quantitative goals, both in the amount of finance needed to achieve globally-agreed sustainable goals, but also in the emissions thresholds needed to limit global warming to 2℃. Central to this is the sustainability classification approach taken in the EU taxonomy, establishing clear numerical thresholds for what could be defined as 'sustainable.' In the EU, retail investors, in addition to institutional investors, are expected to play an influential role in directing finance into sustainable activities, and this has been taken into account in the design of the taxonomy and its intended use including that of labels.

Perhaps the two most important distinctions to be highlighted are: (1) the regulatory approach taken; and (2) the existence of clear quantitative goals indicated, in EU sustainable finance policy. The regulatory approach primarily concerns disclosure requirements. Quantitative goals include investment mobilisation targets and emissions reduction targets. The emissions reduction targets are further reflected in the numerical thresholds set to define which investments are 'sustainable' under the EU taxonomy. These quantitative goals combined with regulatory measures effectively make EU sustainable finance policy considerably more ambitious.

Future research should focus on assessing the effectiveness of these policies, which was beyond the scope of this report. To evaluate policy effectiveness, the full menu of policies must first be identified, which this report makes an initial contribution to. Furthermore, impacts and outcomes must be monitored, and cause and effects need to be analysed including due consideration of other possible influencing factors such as cultural norms and the general economic state. An ambitious policy approach may be effective in one context but may not necessarily be as effective in another. A theory of change applicable to one culture could be counter effective in another. Therefore, comparative analysis is useful to explore what policies might be more effective in what circumstances.

Discussions paving the way to the adoption of the Paris Agreement and the SDGs both stressed the need for action beyond 'business as usual.' To achieve transformational outcomes, radical measures must be taken, and such measures will be disruptive. Crises present opportunities for drastic change. This sense of gravity and urgency needs to be met with bold and immediate action.

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Annex 1: Japan Sustainable Finance Policies (English/Japanese Translation Table)

	Policy (Document Name / Program Name / Initiative Name)	Relevant Body	政策名 (政策文書名・事業名)	取組主体
1	"The Long Term Strategy Under the Paris Agreement" (Cabinet Decision Document)	Cabinet	「パリ協定に基づく成長戦略」	内閣
2	"Basic Ways of Thinking in Promoting SDGs Finance Towards Regional Revitalization" (Study Group Report)	(Regional Revitalizations SDGs / ESG Finance Research and Study Group)	「地方創生に向けたSDGs金融の推進の基本的な考え方」	地方創生SDGs・ESG金融調査・研究会
3	N/A	(Regional Revitalization SDGs Finance Research and Study Group)	N/A	地方創生SDGs金融調査・研究会
4	"Principles for Financial Action for the 21st Century"	Environment Finance Action Principles Drafting Committee	「持続可能な社会の形成に向けた金融行動原則（21 世紀金融行動原則）」	環境金融行動原則起草委員会
5	"Introduction to ESG Investment" (ESG Working Group Report)	Working Group on Incorporating Issues Regarding Sustainability into Investment (ESG Working Group)	「ESG検討会報告書　ESG投資に関する基本的な考え方」	持続可能性を巡る課題を考慮した投資に関する検討会（ESG検討会）
6	"Recommendation from the High Level Meeting on ESG Finance - Toward becoming a big power in ESG Finance" (Outcome Report / Recommendations)	High Level Meeting on ESG Finance	「ESG 金融懇談会 提言～ ESG 金融大国を目指して ～」	ESG金融懇談会
7	"Strategy toward becoming a big power in ESG finance" (Statement)	ESG Finance Strategy Taskforce (Principles for Financial Action for the 21st Century / Ministry of Environment)	「ESG金融大国となるための取るべき戦略」	ESG金融戦略タスクフォース (21世紀金融行動原則・環境省）
8	N/A	ESG Finance High Level Panel	N/A	ESG金融ハイレベル・パネル
9	"Green Bond Guidelines 2017/2020"	Green Bond Review Committee Review Committee on Green Bonds, Green Loans, etc. (Second Review Committee)	「グリーンボンドガイドライン」（2017年版／2020年版）	グリーンボンドに関する検討会 グリーンボンド・グリーンローン等に関する検討会
10	"Green Loan and Sustainability Linked Loan Guidelines 2020"	Green Bond Green Loan Review Committee	「グリーンローン及びサステナビリティ・リンク・ローンガイドライン2020年版」	グリーンボンド・グリーンローン等に関する検討会
11	Pilot Project for Green Bond Issuance	N/A	グリーンボンド発行モデル創出事業	N/A
12	Japan Green Bond Awards	N/A	ジャパン・グリーンボンド・アワード	N/A
13	Financial Support Program for Green Bond Issuance	N/A	グリーンボンド発行促進 体制整備支援事業（補助事業）	N/A
14	Registration System of Green Bond Issuance Supporters	N/A	グリーンボンド発行支援者登録制度	N/A
15	Financial Support Program for New Green Finance Schemes	N/A	新たなグリーンファイナンス・スキーム構築支援事業	N/A
16	"Utilizing Environmental Information for the Evaluation of Corporate Value" (Report)	(Environmental Information and Corporate Value Committee)	「環境情報を企業価値評価に活用するための考え方に関する報告書」	環境情報と企業価値に関する検討会
17	"Perspective on Evaluating Environmentally Sustainable Companies" (Report)	Environmentally Sustainable Companies Evaluation Committee	「環境サステナブル企業」についての評価軸と評価の視点	環境サステナブル企業評価検討会
18	"Practical Guide for Scenario Analysis in line with TCFD Recommendations"	N/A	TCFDを活用した経営戦略立案のススメ～気候関連リスク・機会を織り込むシナリオ分析実践ガイド～	N/A

	Policy (Document Name / Program Name / Initiative Name)	Relevant Body	政策名 (政策文書名・事業名）	取組主体
19	Support Program for Climate Risk / Opportunity Assessment and Scenario Analysis in line with TCFD Recommendations	N/A	脱炭素経営による企業価値向上促進プログラム TCFDに沿った気候変動リスク・チャンスを織り込む経営の支援	N/A
20	ESG Dialogue Platform	N/A	脱炭素経営による企業価値向上促進プログラム 環境情報開示基盤整備事業（ESG対話プラットフォーム）	N/A
21	"Findings from Case Studies on ESG Regional Finance" (Report)	(Committee on Research on Leading Initiatives on ESG Regional Finance)	「事例から学ぶESG地域金融のあり方ーESG地域金融の普及に向けてー」	ESG地域金融の先行事例調査に関する検討会
22	ESG Regional Finance Interest Subsidy Programme	N/A	地域ESG融資促進利子補給事業	N/A
23	ESG Regional Finance Promotion Program	N/A	ESG地域金融促進事業 ESG要素を考慮した事業性評価の支援事業	N/A
24	"Guidance on the Assessment of Community Regenerative Energy Projects" (Revised Version 2019)	(Committee on Information Disclosure and Assessment for the Promotion of Green Investment)	地域における再生可能エネルギー事業の事業性評価等に関する手引き（金融機関向け）(2019年改訂)	グリーン投資促進のための情報開示及び評価の在り方に関する検討会
25	"Final Report of the Ito Review 'Competitiveness and Incentives for Sustainable Growth: Building Favorable Relationships between Companies and Investors' Project" (The Ito Review)	“Competitiveness and Incentives for Sustainable Growth: Building Favorable Relationships between Companies and Investors” Project	「持続的成長への競争力とインセンティブ ～企業と投資家の望ましい関係構築～」プロジェクト 最終報告書 （伊藤レポート）	「持続的成長への競争力とインセンティブ～企業と投資家の望ましい関係構築～」プロジェクト
26	"The Ito Review 2.0"	Study Group on Long-term Investment (Investment Evaluating ESG Factors and Intangible Assets) toward Sustainable Growth	「伊藤レポート2.0」	持続的成長に向けた長期投資 （ESG・無形資産投資）研究会
27	"Guidance for Collaborative Value Creation"	N/A	「価値協創のための統合的開示・対話ガイダンス-ESG・非財務情報と無形資産投資-」	N/A
28	N/A	Study Group for Discussing Approaches to Making More Substantial the Dialogues for Creation of Sustainable Corporate Value	N/A	「サステナブルな企業価値創造に向けた対話の実質化検討会」
29	"Guidance for Climate-related Financial Disclosure (TCFD Guidance)"	N/A	「TCFDガイダンス」	N/A
30	Declaration of Active Fund Managers	The Active Fund Manager Subcommittee	アクティブ・ファンドマネージャー宣言	アクティブ・ファンドマネージャー分科会
31	"Guidance for Collaborative Value Creation by Biotech and Investors"	Study Group for Encouraging Dialogue between Biotech Venture Businesses and Investors	バイオメディカル産業版「価値協創ガイダンス」	バイオベンチャーと投資家の対話促進研究会
32	"Diversity 2.0 Action Guidelines"	Study Group for Ideal Approaches to Diversity Management (Diversity 2.0) as a Competitive Strategy	「ダイバーシティ 2.0 行動ガイドライン」	競争戦略としてのダイバーシティ経営（ダイバーシティ2.0）の在り方に関する検討会
33	"Practical Guidelines for Corporate Governance System (CGS Guidelines)"	Corporate Governance System (CGS) Study Group	「コーポレート・ガバナンス・システムに関する実務指針（CGSガイドライン）」	コーポレート・ガバナンス・システム（CGS）研究会
34	Forum for Integrated Corporate Disclosure and ESG Dialogue	N/A	統合報告・ESG対話フォーラム	N/A

	Policy (Document Name / Program Name / Initiative Name)	Relevant Body	政策名 (政策文書名・事業名）	取組主体
35	"Guide for SDG Business Management"	SDG Management / ESG Investment Study Group	「SDGs経営ガイド」	SDGs経営／ESG投資研究会
36	"Concept Paper on Climate Transition Finance Principles"	Study Group on Environmental Innovation Finance	「クライメート・トランジション・ファイナンスの考え方]	環境イノベーションに向けたファイナンスのあり方研究会
37	"Clarification of Legal Issues Related to the Development of Japan's Stewardship Code"	The Council of Experts Concerning the Japanese Version of the Stewardship Code	「日本版スチュワードシップ・コードの策定を踏まえた法的論点に係る考え方の整理」	日本版スチュワードシップ・コードに関する有識者検討会
38	"Revision of the Corporate Governance Code and Establishment of Guidelines for Investor and Company Engagement" (Recommendations)	The Council of Experts Concerning the Follow-Up of Japan's Stewardship Code and Japan's Corporate Governance Code	「コーポレートガバナンス・コードの改訂と投資家と企業の対話ガイドラインの策定について」	スチュワードシップ・コード及びコーポレートガバナンス・コードのフォローアップ会議
39	"Japan's Stewardship Code 2014/2017/2020"	The Council of Experts on the Stewardship Code	「責任ある機関投資家」の諸原則 <日本版スチュワードシップ・コード> （2014年策定・2017年改訂・2020年改訂）	スチュワードシップコードに関する有識者検討会
40	"Guidelines for Investor and Company Engagement"	N/A	「投資家と企業の対話ガイドライン」	N/A
41	"Corporate Governance Code 2015/2018"	The Tokyo Stock Exchange	「コーポレートガバナンス・コード」 （2015年策定・2018年改訂）	東京証券取引所

Source: Compiled by authors based on translations utilised in documents and websites produced by the relevant ministries.

Annex 2: Japan Sustainable Finance Policies (Documents / Programs / Initiatives)

	Policy (Document Name / Program Name / Initiative Name)	Relevant Government Agency	Relevant Body	Purpose / Overview	Month/Year Implemented	Policy Type		Asset Class					UNEP Inquiry Sustainable Finance Policy Categorization				
						Regulatory	Voluntary	Unspecified	Equity	Debt	Loans	Real Estate	Taxonomies and Labeling	Policy Incentives	Products, Tools and Capacity Building	Disclosure	Unspecified
1	"The Long Term Strategy Under the Paris Agreement" (Cabinet Decision Document)	Cabinet Office	Cabinet	Japan's Long Term Strategy based on the Paris Agreement adopted under Cabinet Decision.	6/2019		✓	✓						✓	✓	✓	
2	"Basic Ways of Thinking in Promoting SDGs Finance Towards Regional Revitalization" (Study Group Report)	Cabinet Office	(Regional Revitalizations SDGs / ESG Finance Research and Study Group)	This Study Group was brought together to discuss the way forward for SDGs/ESG Finance in addressing regional social issues in the context of promoting Regional Revitalization, channeling private finance to businesses with such objectives, and the revitalization of regional economies and sustainable community development. The Study Group outlined the definition of, and way forward for 'Regional Revitalization SDGs Finance' in its Report.	3/2019		✓		✓	✓	✓			✓	✓		
3	N/A	Cabinet Office	(Regional Revitalization SDGs Finance Research and Study Group)	This Study Group was brought together to discuss the way forward for SDGs/ESG Finance in addressing regional social issues in the context of promoting Regional Revitalization, channeling private finance to businesses with such objectives, and the revitalization of regional economies and sustainable community development.	8/2019 - ongoing		✓	✓									✓
4	"Principles for Financial Action for the 21st Century"	MOE	Environment Finance Action Principles Drafting Committee	The "Expert Committee on Environment and Finance" of the Central Environment Council, in its final report, called for an establishment of the "Principles for Financial Action for the 21st Century." In response, financial institutions voluntarily participated in a drafting committee, with the Ministry of the Environment serving as its secretariat. Following discussion by the drafting committee, the "Principles for Financial Action for the 21st Century" were adopted in 2011. Over 270 financial institutions have endorsed the principles and five working groups continue to discuss and engage in the promotion of environmental finance.	10/2011		✓	✓							✓	✓	
5	"Introduction to ESG Investment" (ESG Working Group Report)	MOE	Working Group on Incorporating Issues Regarding Sustainability into Investment (ESG Working Group)	An Outcome Report by the ESG Working Group (as a result of 2 year meeting/deliberation) intended to aid the fundamental understanding of ESG investment for those interested in the perspective of ESG investment.	1/2017		✓		✓	✓					✓	✓	
6	"Recommendation from the High Level Meeting on ESG Finance - Toward becoming a big power in ESG Finance" (Outcome Report / Recommendations)	MOE	High Level Meeting on ESG Finance	Recommendations from the High Level Meeting on ESG Finance, where major stakeholders from the financial market were convened to discuss and share the role of finance towards the creation of a sustainable future.	7/2018		✓		✓	✓	✓			✓	✓	✓	
7	"Strategy toward becoming a big power in ESG finance" (Statement)	MOE	ESG Finance Strategy Taskforce (Principles for Financial Action for the 21st Century / Ministry of Environment)	Recommendations from the ESG Finance Strategy Taskforce in response to the 'Recommendation from the High Level Meeting on ESG Finance - Towards becoming a big power in ESG Finance'	3/2019		✓		✓	✓	✓				✓	✓	
8	N/A	MOE	ESG Finance High Level Panel	The ESG Finance High Level Panel was established for industry leaders in finance and investment to work with government to discuss and promote matters regarding to ESG finance. The Panel will follow up periodically on the Recommendations from the High Level Meeting on ESG Finance, position ESG finance as a new driver for growth and lead initiatives for Japan to become a big power in ESG finance.	2/2019		✓		✓	✓	✓						✓
9	"Green Bond Guidelines 2017/2020"	MOE	Green Bond Review Committee Review Committee on Green Bonds, Green Loans, etc. (Second Review Committee)	The Green Bond Guidelines were developed to raise the visibility of Green Bonds and expand Green Bond issuance and investment within Japan in line with the global development of the Green Bond market. Consistency with the Green Bond Principles were considered in the development of the Guidelines. The Green Bond / Green Loan Consideration Committee was tasked to review and update the Green Bond Guidelines (2017) in accordance with revisions of the GBP since 2017, and to newly draft a Green Loan Guideline based on the Green Loan Principles as adopted by the Loan Market Association.	3/2020		✓			✓			✓		✓	✓	
10	"Green Loan and Sustainability Linked Loan Guidelines 2020"	MOE	Green Bond Green Loan Review Committee	The Green Bond / Green Loan Consideration Committee was tasked to review and update the Green Bond Guidelines (2017) in accordance with revisions of the GBP since 2017, and to newly draft a Green Loan Guideline based on the Green Loan Principles as adopted by the Loan Market Association.	3/2020		✓			✓	✓		✓		✓	✓	
11	Pilot Project for Green Bond Issuance	MOE	N/A	The project Identified Green Bond issuance cases which are in line with the Green Bond Guidelines and can be seen as model cases for the further promotion of green bond issuances.	4/2017 - 3/2018		✓			✓			✓		✓		
12	Japan Green Bond Awards	MOE	N/A	The Japan Green Bond Awards were held to publically showcase advanced efforts in green bonds with the purpose of further promoting the issuances of and investments in green bonds.	3/2019		✓			✓			✓		✓		
13	Financial Support Program for Green Bond Issuance	MOE	N/A	A financial support program intended for those providing consulting and/or verification services related to green bond issuances. The programme intended to create momentum and provide financial support for costs associated with green bond issuances to aid the growth of the green bond market.	4/2018 - ongoing		✓			✓				✓			
14	Registration System of Green Bond Issuance Supporters	MOE	N/A	A registry for consultants and reviewers related to green bond issuances. Companies/organizations applying for the above mentioned financial support program must be pre-registered as a prerequisite to receive support.	4/2018 - ongoing		✓			✓			✓				
15	Financial Support Program for New Green Finance Schemes	MOE	N/A	A financial support program intended for companies/organizations with ideas/plans of new green finance scheme for green projects, including crowd funding, social impact bonds, and the utilization of fintech. Finance support will be granted to support the planning/implementation of schemes and frameworks.	4/2019 - ongoing		✓	✓						✓	✓		
16	"Utilizing Environmental Information for the Evaluation of Corporate Value" (Report)	MOE	(Environmental Information and Corporate Value Committee)	The purpose of the Committee is to promote investor understanding of environmental data. The Report is intended for institutional investors aiming to acquire capacity in furthering the understanding of environmental information in order to incorporate ESG factors in investment decisions. It aims to provide practical guidance on how environmental information should be utilized in corporate value assessment.	5/2019		✓		✓	✓					✓	✓	

	Policy (Document Name / Program Name / Initiative Name)	Relevant Government Agency	Relevant Body	Purpose / Overview	Month/Year Implemented	Policy Type		Asset Class					UNEP Inquiry Sustainable Finance Policy Categorization				
						Regulatory	Voluntary	Unspecified	Equity	Debt	Loans	Real Estate	Taxonomies and Labeling	Policy Incentives	Products, Tools and Capacity Building	Disclosure	Unspecified
17	"Perspective on Evaluating Environmentally Sustainable Companies" (Report)	MOE	Environmentally Sustainable Companies Evaluation Committee	In parallel to promoting investment decisions based on an understanding of environmental considerations on corporate value, the purpose of this document developed by the Environmentally Sustainable Companies Evaluation Committee is to provide reference for investors seeking to evaluate 'environmentally sustainable companies' which are strategically working to incorporate environmental considerations in corporate management.	7/2019		✓		✓	✓					✓	✓	
18	"Practical Guide for Scenario Analysis in line with TCFD Recommendations"	MOE	N/A	The document aims to serve as a practical guide for companies intending to conduct scenario analysis in line with TCFD recommendations. The document brings together scenario analysis cases conducted as part of the 'Support Program for Climate Risk / Opportunity Assessment and Scenario Analysis in line with TCFD Recommendations.'	3/2019		✓		✓	✓					✓	✓	
19	Support Program for Climate Risk / Opportunity Assessment and Scenario Analysis in line with TCFD Recommendations	MOE	N/A	Support program for companies aiming to conduct scenario analysis and assess climate related risks and opportunities in line with TCFD recommendations, consider the analysis in their corporate strategy and disclose said information.	4/2018 - 3/2019		✓	✓						✓	✓	✓	
20	ESG Dialogue Platform	MOE	N/A	A platform integrating database functionality with direct dialogue functionality aiming to create a social economy in which appropriate funds flow to companies involved in sustainable initiatives including activities for the realization of a low-carbon / carbon-free society. The system supports the disclosure of environmental information and dialogue between parties including companies and investors. It is intended to increase the convenience of access to corporate environmental information and provide tools to promote comparisons and analysis as well as dialogue on ESG between parties including companies and investors.	3/2016 - ongoing		✓	✓							✓	✓	
21	"Findings from Case Studies on ESG Regional Finance" (Report)	MOE	(Committee on Research on Leading Initiatives on ESG Regional Finance)	The Committee conducted research on case studies where regional financial institutions have taken into account ESG factors in their loans and services to corporates. The Report is intended to serve as reference for banks interested in conducting business assessments taking ESG factors in account for the purposes of increased profit, mitigating risk of regional finance institutions and the sustainability of regional communities. The Report is comprised of the following three sections. 1) The Vision for ESG Regional Finance 2) Case Study of Leading Initiatives at Project Level (Shiga Bank, Saga Bank, Kagoshima Bank, Hokuyo Bank, Saningodo Bank, Hokuto Bank, Nagoya Bank, Hiroshima Bank) 3) Case Study of Leading Initiatives at Institutional Level (Shiga Bank, Dai-ichi Kangyo Credit Cooperative)	3/2019		✓		✓		✓				✓		
22	ESG Regional Finance Interest Subsidy Programme	MOE	N/A	The Subsidy Program supports regional financial institutions providing ESG lending products contributing to the establishment of Regional Circular and Ecological Spheres (CES) by providing financial support to cover cost for granting preferential interest. The Program aims to promote the establishment of Regional CES, the reduction of GHG emissions, and further regional ESG lending.	4/2019 - ongoing		✓				✓			✓			
23	ESG Regional Finance Promotion Program	MOE	N/A	The Program includes the following components. 1. To identify potential regional green projects with future profitability potential through market research 2. Assist in establishing the process for program assessment considering ESG factors.	3/2019 - ongoing		✓				✓			✓	✓		
24	"Guidance on the Assessment of Community Regenerative Energy Projects" (Revised Version 2019)	MOE	(Committee on Information Disclosure and Assessment for the Promotion of Green Investment)	Guidelines for financial institutions on how to conduct business assessments of renewable energy businesses.	3/2019		✓				✓				✓		
25	"Final Report of the Ito Review 'Competitiveness and Incentives for Sustainable Growth: Building Favorable Relationships between Companies and Investors' Project" (The Ito Review)	METI	"Competitiveness and Incentives for Sustainable Growth: Building Favorable Relationships between Companies and Investors" Project	The final report analyzes and makes recommendations with respect to the issues companies face in seeking to increase corporate value and generate on-going growth via investor dialogue and capital procurement. Key messages are the need for a shift to capital efficiency-focused management, optimization of the investment chain, and promotion of two-way dialogue between companies and investors. Known as the 'ITO Review," the report indicates the general thinking and direction of recent Japanese economic policy.	8/2014		✓		✓						✓	✓	
26	"The Ito Review 2.0"	METI	Study Group on Long-term Investment (Investment Evaluating ESG Factors and Intangible Assets) toward Sustainable Growth	The Study Group was mandated to discuss ideal approaches to strategic investment for companies to improve their corporate value, methods that investors should take for evaluating companies from long-term perspectives, and ideal approaches that companies should take to disclose information and hold dialogues with investors. The final report and recommendation released by the Study Group is known as the Ito Review 2.0.	10/2017		✓		✓						✓	✓	
27	"Guidance for Collaborative Value Creation"	METI	N/A	The Guidance for Collaborative Value Creation is meant to be 'the common language' bringing companies and investors together. The Guidance comprehensively pulls together information to be shared with investors (management value, business models and strategies, governance) for corporate management and aims to contribute to the quality of information disclosure and investor dialogue.	5/2017		✓		✓						✓	✓	
28	N/A	METI	Study Group for Discussing Approaches to Making More Substantial the Dialogues for Creation of Sustainable Corporate Value	In light of the changes in environments surrounding companies, investors and capital markets since its release of the Ito Review, the study group aims to hold discussions on challenges in further encouraging companies to improve sustainable corporate value through "dialogues" between companies and investors and on measures for overcoming the challenges.	11/2019 - ongoing		✓		✓						✓	✓	
29	"Guidance for Climate-related Financial Disclosure (TCFD Guidance)"	METI	N/A	The Guidance compiles case studies of corporate climate related disclosures in line with TCFD recommendations and provides 'perspectives' unique to each industry to aid in company reporting.	12/2018		✓	✓							✓	✓	
30	Declaration of Active Fund Managers	METI	The Active Fund Manager Subcommittee	A Declaration by fund managers welcoming information disclosure as a result of "The Guidance for Collaborative Value Creation" and stating their intentions of considering such information in the investment decision making process.	5/2018		✓		✓						✓		
31	"Guidance for Collaborative Value Creation by Biotech and Investors"	METI	Study Group for Encouraging Dialogue between Biotech Venture Businesses and Investors	A document meant to supplement The Guidance for Collaborative Value Creation, covering topics specific to Biotech Ventures. Originally released April 2018. Revised, July 2019.	7/2019		✓		✓						✓		

	Policy (Document Name / Program Name / Initiative Name)	Relevant Government Agency	Relevant Body	Purpose / Overview	Month/Year Implemented	Policy Type		Asset Class					UNEP Inquiry Sustainable Finance Policy Categorization				
						Regulatory	Voluntary	Unspecified	Equity	Debt	Loans	Real Estate	Taxonomies and Labeling	Policy Incentives	Products, Tools and Capacity Building	Disclosure	Unspecified
32	"Diversity 2.0 Action Guidelines"	METI	Study Group for Ideal Approaches to Diversity Management (Diversity 2.0) as a Competitive Strategy	An Action Guideline presenting actions to be undertaken by companies facing management challenges and obstacles related diversity. Originally released March 2017. Revised June 2018.	6/2018		✓		✓						✓		
33	"Practical Guidelines for Corporate Governance System (CGS Guidelines)"	METI	Corporate Governance System (CGS) Study Group	A practical guideline meant to supplement the Corporate Governance Code by providing specific actions intended to strengthen company profitability. Originally released March 2017. Revised September 2018.	3/2017		✓		✓						✓		
34	Forum for Integrated Corporate Disclosure and ESG Dialogue	METI	N/A	A platform intended to share best practices for integrated corporate disclosure and to promote dialogue regarding ESG.	12/2017		✓		✓						✓	✓	
35	"Guide for SDG Business Management"	METI	SDG Management / ESG Investment Study Group	A Report outlining how companies should practice SDGs Management and how investors should assess such companies according to discussions from the Study Group.	5/2019		✓	✓							✓		
36	"Concept Paper on Climate Transition Finance Principles"	METI	Study Group on Environmental Innovation Finance	A proposal outlining the basic way of thinking on transition finance.	3/2020		✓		✓	✓	✓		✓		✓		
37	"Clarification of Legal Issues Related to the Development of Japan's Stewardship Code"	FSA	The Council of Experts Concerning the Japanese Version of the Stewardship Code	A document outlining the legal interpretation for key issues relevant to the Japanese Version of the Stewardship Code.	2/2014		✓		✓	✓					✓		
38	"Revision of the Corporate Governance Code and Establishment of Guidelines for Investor and Company Engagement" (Recommendations)	FSA	The Council of Experts Concerning the Follow-Up of Japan's Stewardship Code and Japan's Corporate Governance Code	Recommendations from the Council of Experts on the revision of the Corporate Governance Code and the establishment of a guideline on investor and company engagement.	3/2018		✓	✓							✓		
39	"Japan's Stewardship Code 2014/2017/2020"	FSA	The Council of Experts on the Stewardship Code	The Stewardship Code defines principles considered to be helpful for institutional investors who behave as responsible institutional investors in fulfilling their stewardship responsibilities with due regard both to their clients and beneficiaries and to investee companies. In accordance with the "Growth Strategy Follow-Up" Cabinet decision (June 2019) and the recommendations from the Council of Experts Concerning the Follow-Up of Japan's Stewardship Code and Japan's Corporate Governance Code, the Stewardship Code is currently under discussion for revision with the Council of Experts on the Stewardship Code. A draft revision is currently available (December 2019).	3/2020		✓		✓	✓					✓		
40	"Guidelines for Investor and Company Engagement"	FSA	N/A	The Guidelines for Investor and Company Engagement was developed by the FSA, as proposed by the Follow-Up Conference on Stewardship / Corporate Governance Codes. The Guidelines outlines issues meant to be given priority in company investor engagement and supplements the Stewardship / Corporate Governance Codes.	6/2018		✓		✓	✓					✓		
41	"Corporate Governance Code 2015/2018"	FSA	The Tokyo Stock Exchange	The Corporate Governance Code establishes fundamental principles for effective corporate governance at listed companies in Japan. It is expected that the Code's appropriate implementation will contribute to the development and success of companies, investors and the Japanese economy as a whole through individual companies' self-motivated actions so as to achieve sustainable growth and increase corporate value over the mid- to long-term. Originally released, March 2017. Revised, June 2018.	6/2018		✓	✓							✓		
						0	41	10	22	18	10	0	6	8	36	18	2

Source: Compiled by authors based on information obtained from relevant websites of the EU and Japanese government.

Annex 3: EU Sustainable Finance Policies (Documents / Programs / Initiatives)

	Policy (Document Name / Program Name / Initiative Name)	Relevant Government Agency	Relevant Body	Purpose / Overview	Month/Year Implemented OR Action Status	Policy Type: Regulatory	Policy Type: Voluntary	Asset Class: Unspecified	Asset Class: Equity	Asset Class: Debt	Asset Class: Loans	Asset Class: Real Estate	UNEP Inquiry Sustainable Finance Policy Categorization: Taxonomies and Labeling	UNEP: Policy Incentives	UNEP: Products, Tools and Capacity Building	UNEP: Disclosure	UNEP: Unspecified
1	Long-term low greenhouse gas emission development strategy of the European Union and its Member States	DG CLIMA		EU's Long Term Strategy based on the Paris Agreement adopted.	3/2020		✓	✓									✓
2	A Clean Planet for all: A European strategic long-term vision for a prosperous, modern, competitive and climate neutral economy	DG CLIMA	-	It outlines a vision of the economic and societal transformations required, engaging all sectors of the economy and society, to achieve the transition to net-zero greenhouse gas emissions by 2050.	11/2018		✓	✓									✓
	(Action 1) Establishing an EU classification system for sustainable activities																
3	Develop a taxonomy on mitigation and adaptation activities and some environmental activities	DG FISMA	Technical Expert Group on sustainable finance (TEG)	Taxonomy is a unified classification system ('taxonomy') on what can be considered an environmentally sustainable economy. In March 2020, TEG published the final version of its report. This will create a common language for all actors in the financial system. The delegated act on mitigation and adaptation should be adopted by the Commission by 31 December 2020 and will start applying as of 31 December 2021. There will be also taxonomy on remaining four environmental objectives i.e. Sustainable Use and Protection of Water and Marine Resources, Transition to a Circular Economy, Pollution Prevention and Control, and Protection and Restoration of Biodiversity and Ecosystems. The delegated act on the these objectives should be adopted by the Commission by 31 December 2021 and will therefore start applying as of 31 December 2022.	ongoing	✓			✓	✓			✓			✓	
4	Technical Expert Group to publish a report providing a first taxonomy	DG FISMA	Technical Expert Group on sustainable finance (TEG)	TEG was established to assist the EC in the development of EU taxonomy, an EU green bond standard, methodologies for low-carbon indices, and metrics for climate-related disclosure.	3/2020	✓			✓	✓	✓		✓			✓	
	(Action 2) Creating standards and labels for green financial products																
5	Prepare a report on an EU green bond standard	DG FISMA	Technical Expert Group on sustainable finance (TEG)	In June 2019, the TEG published its Report on EU Green Bond Standard, which the Commission studies and decide how take forward the TEG proposal. The TEG proposes that the Commission creates a voluntary, non-legislative EU Green Bond Standard to enhance the effectiveness, transparency, comparability and credibility of the green bond market and to encourage the market participants to issue and invest in EU green bonds.	6/2019		✓			✓			✓			✓	
6	Specify the content of the prospectus for green bond issuances within the framework of the Prospectus Regulation	DG FISMA	Technical Expert Group on sustainable finance (TEG)	TEG's Report on EU Green Bond Standard in June 2019 addressed green projects of green bond within the framework of legal documentation including the Prospectus Regulation. It says the issuer shall provide a description of such Green Projects in their Green Bond Framework and in the Green Bond legal documentation (for instance in the Prospectus or in the Final Terms).	6/2019	✓				✓			✓			✓	
7	Explore the use of the EU Ecolabel framework for certain financial products	DG FISMA	Unit B5 - Circular Economy and Industrial Leadership Unit B1 - Finance & Economy of the Joint Research Centre (JRC) Directorate B - Growth and Innovation for the Directorate General for the Environment	The EU Ecolabel for Financial Products is being developed as of Feb, 2020. The Ecolabel will define the minimum environmental performance of this product group and will be based on the requirements of the EU Ecolabel Regulation 66/2010 with the objective of awarding the best environmentally performing financial products. Action Plan mentions that the Commission will explore the use of the EU Ecolabel framework for certain financial products, to be applied once the EU sustainability taxonomy is adopted.	ongoing	✓		✓					✓				
	(Action 3) Fostering investment in sustainable projects																
8	Take further measures that will improve the efficiency and impact of instruments aiming at sustainable investment support in the EU and in partner countries.	DG FISMA	—	The InvestEU Programme was adopted by the EU Parliament in April 2019. The InvestEU Programme will bring together under one roof of 14 of EU financial instruments currently available to support investment in the EU. InvestEU will run between 2021 and 2027. The InvestEU Fund will support four policy areas: sustainable infrastructure; research, innovation and digitisation; small and medium-sized businesses; and social investment and skills.	ongoing		✓	✓	✓	✓				✓	✓		
	(Action 4) Incorporating sustainability when providing financial advice																
9	Amend the Markets in Financial Instruments Directive (MiFID II) and the Insurance Distribution Directive (IDD) to ensure that sustainability preferences are taken into account in the suitability assessment, subject to the outcome of impact assessment. Invite the European Securities Markets Authority (ESMA) to include provisions on sustainability preferences in its guidelines on the suitability assessment.	DG FISMA	ESMA	The Commission intends to clarify how asset managers, insurance companies, and investment or insurance advisors should integrate sustainability risks etc. It will do it either by amending existing delegated acts such as the MiFID II Directive 2014/65/EU or by adopting new delegated acts under the same Directives. ESMA was tasked with delivering technical advice on integrating sustainability risks and factors in MiFID II and in the UCITS and AIFMD Directives. ESMA submitted its advice on 30 April 2019 for amendments to the relevant rules applying to investment firms and investment funds.	ongoing	✓		✓							✓		

	Policy (Document Name / Program Name / Initiative Name)	Relevant Government Agency	Relevant Body	Purpose / Overview	Month/Year Implemented OR Action Status	Policy Type		Asset Class					UNEP Inquiry Sustainable Finance Policy Categorization				
						Regulatory	Voluntary	Unspecified	Equity	Debt	Loans	Real Estate	Taxonomies and Labeling	Policy Incentives	Products, Tools and Capacity Building	Disclosure	Unspecified
	(Action 5) Developing sustainability benchmarks																
10	Intends to adopt delegated acts, within the framework of the Benchmark Regulation, on the transparency of the methodologies and features of benchmarks. Intends to put forward, subject to the outcome of its impact assessment, an initiative for harmonising benchmarks comprising low-carbon issuers.	DG FISMA	Technical Expert Group on sustainable finance (TEG)	In response to the perceived lack of uniformity among existing low-carbon indices, Benchmarks Regulation was amended and the Low Carbon Benchmark Regulation (LCBR) was introduced. In November 2019, it was adopted. LCBR introduced a new category of benchmarks: an EU climate transition benchmark and a "Paris-aligned" benchmark that brings investment portfolios in line with the Paris Agreement. LCBR requires all benchmarks (with some exception) to disclose in their benchmark statement whether or not their benchmarks pursue ESG objectives, and whether or not the benchmark administrator offers such ESG-focused benchmarks. Under the LCBR, the Commission will lay down the specific minimum standards for the two new benchmarks, in consideration for the TEG's report on climate-related benchmarks in Sep, 2019. The Commission conducted an impact assessment of policy alternatives. It concludes that the requirements for low carbon and positive carbon impact benchmarks will not have a significant impact on the costs incurred by relevant supervisory authorities.	11/2019	✓			✓	✓			✓		✓	✓	
	(Action 6) Better integrating sustainability in ratings and market research																
11	Explore the merits of amending the Credit Rating Agency Regulation to mandate credit rating agencies to explicitly integrate sustainability factors into their assessments. Invites ESMA to: (i) assess current practices in the credit rating market; (ii) include environmental and social sustainability information in its guidelines on disclosure for credit rating agencies and consider additional guidelines or measures, where necessary. Carry out a comprehensive study on sustainability ratings and research.	DG FISMA	ESMA SustainAbility（London based think tank）	In July 2019, ESMA published its technical advice. It found that, while credit rating agencies (CRAs) are considering ESG factors in their ratings, the extent of their consideration can vary significantly across asset classes. However, given previous negative experiences of over-reliance on credit ratings pre-financial crisis etc., it would not be advisable to amend the CRA Regulation to more explicitly mandate the consideration of sustainability characteristics in CRA's credit assessments. It proposes that the Commission assesses whether there are sufficient regulatory safeguards in place for other products that will meet the demand for pure sustainability assessments. European Commission appoints London based think-tank to conduct SustainAbility ratings and research study.	ongoing	✓				✓						✓	
	(Action 7) Clarifying institutional investors' and asset managers' duties																
12	Table a legislative proposal to clarify institutional investors' and asset managers' duties in relation to sustainability considerations, subject to the outcome of its impact assessment	DG FISMA	ESMA	It aims at strengthening financial stability and asset pricing by clarifying that institutional investors and investment managers have a duty to consider the materiality of sustainability factors. It was part of the Commission's legislative proposal in Action 9 on sustainability disclosure. In November 2019, the EU Council adopted the Disclosure Regulation. The Disclosure Regulation governs ESG disclosure requirements for financial market participants and financial advisers, and how those firms integrate ESG factors into their investment decisions. The next step is for European supervisory authorities to come up with specific and detailed rules for the implementation of the Disclosure Regulation, for which they are expected to begin the consultation process in early 2020.	11/2019	✓			✓	✓			✓		✓	✓	
	(Action 8) Incorporating sustainability in prudential requirements																
13	Explore the feasibility of the inclusion of risks associated with climate and other environmental factors in institutions' risk management policies and the potential calibration of capital requirements of banks as part of the Capital Requirement Regulation and Directive.	DG FISMA	EBA	EC requires the EBA to: EBA Regulation: Develop a monitoring system to assess material Environmental, Social and Governance (ESG) risks; develop common methodologies for assessing the effect of economic scenarios on an institution's financial position; and Capital Requirements Regulation (CRR 2) and Capital Requirements Directive (CRD 5): Assess the potential inclusion of ESG risks in the Supervisory Review and Evaluation Process (SREP); develop a technical standard for the disclosure of ESG risks; and assess the potential inclusion of ESG risks as a Pillar 1 capital requirement. On December 6, the European Banking Authority (EBA) published its action plan which sets out the timelines and milestones for Strategy and Risk Management, Key Metrics and Disclosure, Stress Testing and Scenario Analysis, and Prudential Treatment for each.	12/2019	✓		✓							✓		
14	Invite the European Insurance and Occupational Pensions Authority (EIOPA) to provide an opinion on the impact of prudential rules for insurance companies on sustainable investments, with a particular focus on climate change mitigation.	DG FISMA	EIOPA	In May 2019, EIOPA published its advice to the European Commission. EIOPA concludes insurers should reflect the impact of their investments on sustainability and emphasises the relevance of integrating sustainability risks in the investment decisions and underwriting practices. In respect of product design and distribution, EIOPA calls for the introduction of a clear reference to ESG considerations in the implementing rules of the Insurance Distribution Directive.	5/2019	✓		✓							✓		

	Policy (Document Name / Program Name / Initiative Name)	Relevant Government Agency	Relevant Body	Purpose / Overview	Month/Year Implemented OR Action Status	Policy Type		Asset Class					UNEP Inquiry Sustainable Finance Policy Categorization				
						Regulatory	Voluntary	Unspecified	Equity	Debt	Loans	Real Estate	Taxonomies and Labeling	Policy Incentives	Products, Tools and Capacity Building	Disclosure	Unspecified
	(Action 9) Strengthening sustainability disclosure and accounting rule-making																
15	Launching a fitness check of EU legislation on public corporate reporting	DG FISMA	-	The fitness check of corporate reporting is meant to assess whether the current corpus of accounting and reporting legislation serves the objectives assigned to it, whether it could be modernized and serve new objectives. The Commission held consultation and received public comments in 2018. The final deliverable, a Staff Working Document, was to be published in the 2nd quarter of 2019 but could not be identified.	2/2018		✓	✓					✓			✓	
16	Revise the guidelines on non-financial information	DG FISMA	-	In June 2019, the EC published new guidelines on corporate climate-related information reporting. They will provide guidance to around 6,000 EU-listed companies, banks and insurance companies that have to disclose non-financial information under the Non-Financial Reporting Directive.	6/2019		✓	✓					✓			✓	
17	Establish a European Corporate Reporting Lab as part of the European Financial Reporting Advisory Group (EFRAG)	DG FISMA	European Financial Reporting Advisory Group (EFRAG)	The European Corporate Reporting Lab was established by EFRAG, whose objective is to stimulate innovation in the field of corporate reporting in Europe by identifying and sharing good reporting practices.	ongoing		✓	✓							✓	✓	
18	Request asset managers and institutional investors to disclose how they consider sustainability factors in their strategy and investment decision making process, in particular for their exposures to climate change-related risks	DG FISMA	-	As part of the Commission's legislative proposal in Action 7, asset managers and institutional investors are requested to disclose how to consider sustainability factors in their strategy and investment decision making process, in particular for their exposures to climate change-related risks.	11/2019	✓		✓								✓	
19	Request EFRAG, where appropriate, to assess the impact of new or revised International Financial Reporting Standards (IFRSs) on sustainable investments.	DG FISMA	EFRAG	In January 2018,IFRS 9 *Financial Instruments* became effective. EFRAG reviews contemporary academic literature to shed some light on the possible effects of this regulatory change on investment decisions and strategies of long-term investors.	11/2019		✓	✓							✓	✓	
20	Within the fitness check of EU legislation on public corporate reporting, evaluate relevant aspects of the International Accounting Standards Regulation	DG FISMA	-	The fitness check of corporate reporting is meant to assess whether the current corpus of accounting and reporting legislation serves the objectives assigned to it, whether it could be modernized and serve new objectives. The Commission received public comments in Feb and March 2018. Topic of public comments includes IFRS related issues.	2/2018		✓	✓							✓	✓	
	(Action 10) Fostering sustainable corporate governance and attenuating short-termism in capital markets																
21	Carry out analytical and consultative work with relevant stakeholders to assess: (i) the possible need to require corporate boards to develop and disclose a sustainability strategy; and (ii) the possible need to clarify the rules according to which directors are expected to act in the company's long-term interest. Invites ESMA to collect information on undue short-termism in capital markets	DG FISMA	ESMA, EBA and EIOPA	In response to the Commission request, ESMA, EBA and EIOPA gave advice on undue short-term pressure from the financial sector on corporations. ESMA's recommendations includes NFRD revision. The EBA confirms it did find evidence of short-termism, but does not classify it as necessarily "undue" EBA's recommendations includes maintaining a robust regulatory prudential framework as a pre-condition for long-term investments, while continuing monitoring potential unintended consequences of financial regulations on the supply of sustainable investment financing. EIOPA did not find evidence of undue short-termism in insurance and institutions for occupational retirement provision. The EIOPA's recommendations include establishing a cross-sectorial framework to promote long-term investments. In response to the Commission request, ESMA collected information on sustainable corporate governance and attenuating short-termism in capital markets. The information is included in the report published in Dec, 2019.	8/2019(ESMA) 12/2019(EBA, EIOPA)		✓	✓					✓				
						11	10	14	5	8	1	0	10	1	9	13	2

Source: Compiled by authors based on information obtained from relevant websites of the EU and Japanese government.

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