Consumer Protection Initiatives for Sustainable Finance in Japan

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The views expressed through the presentation may not necessarily represent official views of the JFSA.

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Q: Perspectives on "What is Green?"

Ⅰ. GHG Emission Reduction Targets by Country

	NDC（Target by 2030）	Net Zero by 2050
UK	at least 68% by 2030, compared to 1990 levels (December 2020, NDC resubmission)	Pledged
EU	at least 55% by 2030, compared to 1990 levels (December 2020, NDC resubmission)	Pledged
Canada	40-45 % by 2030, compared to 2005 levels (July 2021, NDC resubmission)	Pledged
Japan	46 % by 2030, compared to 2013 levels *efforts will be continued in the challenge to further increase the goal to 50% (October 2021, NDC resubmission)	Pledged
US	50-52 % by 2030, compared to 2005 levels (April 2021, NDC resubmission)	Pledged
China	lower CO2 emissions per unit of gross domestic product (GDP) by over 65% from the 2005 level (Declared by President Xi Jinping, on December 12, at the Climate Ambition Summit)	(President Xi Jinping declared that China aims to achieve carbon neutrality before 2060)

（Source）Compiled by JFSA using data from various news reports

4. Responses to the problem of climate change

"In Japan too, the public and private sectors are working to share a common overall vision of reforms leading to a carbon-neutral economy and society, urgently at least doubling investments into this field, and making this field an engine that realizes decarbonization and generates growth for a new era.."

"As we work towards the targets of a 46 percent reduction in greenhouse gas emissions by fiscal 2030 and achieving carbon neutrality by 2050, we will be engaged in not simply changes to the energy supply structure, but rather, a major transformation of our economy and society as a whole, spanning our industrial structure, our citizens' daily lives, and the way our communities should be overall."

Ⅲ. Report by the Expert Panel on Sustainable Finance

◆ The FSA established the Expert Panel on Sustainable Finance in December 2020 to discuss ways to promote sustainable finance toward net zero 2050.

◆ In June 2021, the panel published "Report by the Expert Panel on Sustainable Finance -Building A Financial System that Supports a Sustainable Society."

"Report by the Expert Panel on Sustainable Finance (June 2021) "

Ch1. Basic Concept

- ✓ Underlying Principle, Overarching issues

Ch2. Enhance Corporate Disclosure

- ✓ Sustainability, Climate Changes

Ch3. Demonstrate Capital Market Functions

- ✓ Institutional investors, Retail investors, ESG Rating & Data Providers, ESG Platform

Ch4. FIs' Support for Borrowers and Investees, and Risk Management

- ✓ Support for Borrowers, Risk Management

https://www.fsa.go.jp/en/news/2021/20210618.html

Ⅳ. The JFSA's Priorities on Sustainable Finance

◆ Based on the report from the panel, the FSA published its annual strategy in August 2021.

"The JFSA Strategic Priorities(July 2021-June 2022)"

II. Developing a financial system that achieves a vibrant economy and society

3. Promotion of sustainable finance

- **i. Enhancement of disclosure, both in quality and quantity**
- **ii. Exertion of market functions**
- **iii. Support for the investees and climate change risk management.**
- **iv. Active participation in international discussions**

Highlighting the first two pillars in this presentation.

The JFSA Strategic Priorities
July 2021-June 2022
Overcoming COVID-19 and
Building the Financial System for Greater Vibrancy
August 2021
金融庁

https://www.fsa.go.jp/en/news/2021/20211008/The_JFSA_Strategic_Priorities_July_2021-June_2022.pdf

Ⅳ. The JFSA's Priorities on Sustainable Finance (Continued)

	July-Sep 2021	Oct-Dec 2021	Jan-March 2022	April-June 2022
Disclosure	• Encourage companies listed on the Prime Market segment of the Tokyo Stock Exchange to enhance the quality and quantity of disclosure based on the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) • Discuss how listed companies and other companies that submit securities reports should appropriately disclose their sustainability-related initiatives in the Disclosure Working Group			
Market functions	**Platform/ Eligibility confirmation**: • Discuss the establishment of a framework for objectively confirming the eligibility of green bonds • Discuss the establishment of an information platform to broadly consolidate information on the confirmed green bonds etc., as well as the issuers' management and policies regarding ESG (Environmental, Social, and Governance)			
	ESG rating organizations: Discuss the development of a code of conduct expected of ESG rating organizations and data providers, regarding issues such as the transparency and comparability of evaluation methodologies as well as governance, with the aim of ensuring the independence and objectivity of evaluations			
	ESG-related investment trusts: Monitor asset management companies and distributors regarding ESG-related investment trusts			
	Social bonds: Consider formulating a document that provides specific examples of indicators regarding the social benefits of social projects in cooperation with relevant ministries and agencies, based on the new guidelines			
Financial Institutions	**Customer support**: • Discuss what expertise and support a financial institutions can provide for their investment and loan recipients to address climate change			
	Risk management: • Conduct a pilot exercise of scenario analysis using common scenarios for major financial institutions • Clarify the monitoring viewpoints with regard to financial institutions' efforts in light of the issues raised above			
Participation on Intl Discussion	• JFSA will play a leading role in international sustainability-related discussions on such matters as disclosure, smooth private capital mobilization, enhancement of capital market functions, and climate-related risk management. • JFSA will keep abreast of discussions on international initiatives by the private financial sector in a timely manner, and consider frameworks to support financial institutions participating in such initiatives.			

Ⅳ- i) Enhancement of Disclosure

Encourage disclosures based on TCFD recommendation to future Prime Market listed companies, based on the revision of the Corporate Governance Code in June 2021.

Discuss sustainability disclosure in the Disclosure Working Group under the Financial System Council.

Actively participate in the initiative by International Financial Reporting Standards (IFRS) Foundation.

Japan is the country with the largest number of TCFD supporters as of Feb 2022.

Source: TCFD

Ⅳ- ii) Exertion of Market Functions

In collaboration with market participants and relevant agencies,

- Develop a **framework** for objectively confirming the eligibility of green/ESG bonds, and an **information platform** to broadly consolidate information on the confirmed green/ESG bonds

Examples are shown in following slides (ii-1,2)

- Develop **a code of conduct** of ESG rating organizations and data providers

- **Monitor asset management companies and distributors** regarding ESG-related investment trusts for individual investors.

From the investor protection perspective, focus is on Greenwashing risk in following slides (ii-3, 4).

- Provide specific examples of indicators regarding the **social benefits** of social projects based on the Social Bond Guidelines in October 2021.

Ⅳ- ii-a) “Green Bond Guidelines” - Ministry of the Environment

MOE

- ✓ The Guidelines were initially developed in 2017, with the aim of preventing “green wash”, and revised in 2020, given the recent changes in market trends. Information is disseminated to users through the Green Bond Issue Promotion Platform.

➢ Basic Concepts of the Green Bond Guidelines;

- ✓ Classify the expected elements of Green Bonds to form the foundation for interactions between the issuers and investors.
- ✓ It is important for both issuers and investors that the credibility of Green Bonds in general is maintained within the market and society. In particular, it is extremely important to prevent green wash bonds from being issued and invested in as Green Bonds in the market.
- ✓ Consideration is given to consistency with the Green Bond Principles (GBP).
- ✓ It is important for issuers to disclose information, and for investors to use that information in making assessments.

◆ Expected examples of information to be disclosed to investors by green bonds issuers;

I. The use of proceeds (beforehand)
II. The process for project evaluation and selection for investors, as well as their comprehensive environmental sustainability objectives and strategies (beforehand)
III. Tracking and management methods (beforehand)
IV. Status of the use of proceeds (after the issuance)
V. Results of external reviews (after implementation)

(Source) “Green Bond Guideline” version-2020

Ⅳ- ii-b) Initiatives of Japan Exchange Group (JPX)

Major initiatives of JPX group	
Information Dissemination	✓ Information Platform for ESG Bonds (established in 2020) ✓ Requirements for listing as a green bond and general information of listed bonds (e.g. use of proceeds) ✓ Data hub dash-boarding companies' ESG-related information and comparison/analysis tools thereof ✓ Introductions to the main ESG disclosure frameworks, ESG ratings agencies and data providers.
Knowledge/ Capacity Development	✓ Educational materials (e.g. a practical handbook for ESG Disclosure and online practical seminar series, articles), ✓ Case studies of ESG-related disclosure and investment from Japanese listed companies, ✓ Glossary, etc.
Indices	✓ Calculate and publish ESG factor-focused indices.

(Source) JPX

Ⅳ- ii-b) Initiatives of Japan Exchange Group (JPX) (Continued)

- Information Platform for ESG Bonds

- In order to realize a "Green International Financial Center," an appropriate information platform and framework to ensure eligibility of those bonds are important.
- JPX established Sustainable Finance Platform Development Working Group in October 2021 to discuss practical issues related to information platform and framework.

See more details at: Japan Exchange Group. *JPX to Establish "Sustainable Finance Platform Development Working Group"* (October 2021) https://www.jpx.co.jp/english/news/0090/20211014-01.html

Ⅳ- ii-b) Initiatives of Japan Exchange Group (JPX) (Continued)

- Information Platform for ESG Bonds

- JPX plan to create a platform to collate a wide range of information including content on SDGs, with the aim that it will become a **sustainable finance hub for all market players**
- Given the issues that currently exist in the fixed-income field around dispersal and coverage of information, the platform will focus on **ESG bonds (green, social, sustainability, sustainability-linked, transition)** to begin with, aiming to improve convenience and **expand the reach of the market** by providing a hub that can be used by investors (mainly of bonds), issuers of ESG bonds, and financial institutions.

Priorities to be completed by summer 2022

Launch of ESG bond information hub

1. List of ESG bond issues

- Provision of a comprehensive list (HTML and Excel-based) of ESG bonds (public issues)

2. Links to useful information from the list in 1.

- Provision of links to public information on ESG bonds
  - ✓ Fundamentals (statutory disclosures)
  - ✓ Details of issuer (ESG strategy, etc.)
  - ✓ Ratings information
  - ✓ Reporting

3. Educational materials to help users utilize 1. and 2.

- Provision of educational content (videos, articles, etc.) to help investors and other users understand investment in ESG bonds

Functions to consider post-launch

Strengthening of functions to improve user convenience

- **Work to encourage enhancements to English disclosure**
- **Expansion of information to privately issued and other bonds, as well as loans**
- **SSO links to other externally-run databases**
- **Enhancement of search/aggregation functions**

etc.

We will evaluate/review operations after a certain period, considering how the launch and post-launch operations have progressed.

The evaluation will cover, e.g.:

Operations set-up/method

Enhancement of information/functions

(Source) JPX

Ⅳ- ii-c) Initiatives of Japan Securities Dealers Association (JSDA)

Major initiatives of JSDA	
Information Dissemination	✓ Disclose issuance information on ESG-related bonds ✓ Publish a guidebook on financial instruments contributing to ESG ✓ Create a logotype for SDG Bonds ✓ Translate and publish documents related to the International Capital Markets Association (ICMA) (GBP, SBP, etc.)
Knowledge/ Capacity Development	✓ Plan to add Sustainable Finance to the scope of training for ESG-related sales personnel and qualification exams ✓ The roles of SDGs and securities companies are described in the sales representatives' manual. ✓ Create educational contents related to sustainable finance for individual investors on its website [under consideration] ✓ Green Bond conference and training seminars in collaboration with ICMA.

Japan Securities Dealers Association
JSDA

SDG Bonds

(Source) JSDA

Ⅴ. Increased concerns about “Greenwashing” risk

- While ESG/sustainable investments are on the sharp rise in Japan, concerns have been raised that asset managers and distributors might be misleading investors (“greenwashing”).
- From the perspective of consumer protection, asset managers are required to carefully explain the characteristics of an ESG related investment trust at its issuance and distribution, and be accountable for ESG aspects of the selected issues on an ongoing basis.

(Source) Prepared by JFSA based on QUICK data

Ⅴ-i) Typical Examples of Asset Manager-level "Greenwashing" observed in Japan and overseas

- A product has the word, "sustainable" or "ESG", in its name, but
  - its investment objectives only reference financial performance.
  - it only uses such a limited negative screening strategy as to exclude investments in controversial weapons.
  - its disclosure states that the asset manager "may" take ESG factors into account in the product's investment strategies.
- A product that exaggerates its investments in projects well-performing in terms of Environment (E), but with problems in terms of Society (S) and Governance (G).
- A product claims that investments in the product will achieve carbon dioxide emission reductions without explanations on the specific measures or calculations for the impacts thereof.
- A product that places priority to short-term investment performance and cost reduction, while neglecting employee training and due diligence of investees.

etc.

(Source) Recommendations on Sustainability-Related Practices, Policies, Procedures and Disclosure in Asset Management (IOSCO Final Report)

Ⅴ - ii) Supervisory approaches relating to Greenwashing risks

- With the aim of developing its supervisory viewpoints for addressing greenwashing risks to investors, JFSA will monitor asset management companies and distributors regarding ESG-related investment trusts by;

  - ✓Conducting a comprehensive survey; and
  - ✓Holding dialogues with asset management firms to understand their ESG/sustainability-related practices, including strategy, policy, engagement, use of ESG rating, and disclosure.

Q: Perspectives on "What is Green?"

A) Partial view (Partial Optimization?)
➢ "GHG emissions from the perspective only of Cars"

Q: Perspectives on "What is Green?" (Continued)

B) Holistic view (Total Optimization?)
➤ "GHG emissions in the entire ecosystem"

Gasoline Vehicles

Electric Vehicles

?

Country A
(Major power source: Renewable energy)

Country B
(Major power source: Fossil fuels)

THANK YOU !!

The Financial Services Agency, Japan

March 30th, 2022