

About the High Level Meeting on ESG Finance

- In January 2018, [the High Level Meeting on ESG Finance was set up for major players in the financial markets to gather](#) under the initiative of the Minister of the Environment.
 - The Meeting allowed them to [share a strong will for the future](#) to utilize funds of the people (pension assets and deposits) for “solving climate change issues and economic/social issues simultaneously” and creating “new growth.”
 - In this regard, the members had [unfettered discussions on their respective roles to play in the future](#).
- ▶ Based on the discussions conducted through a total of seven meetings, [the recommendation - Toward becoming a big power in ESG finance - from the Meeting was finalized and released on July 27, 2018.](#)

Schedule

- **1st to 3rd meetings: Discussions focused on direct finance**
 - **4th to 6th meetings: Discussions focused on indirect finance**
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| 1st meeting | Why is it important to consider challenges to sustainability (ESG challenges) in the financial markets? |
| 2nd meeting | What is required for constructive dialogues with companies ? |
| 3rd meeting | What should direct finance do to impact sustainability of the environment and society ? |
| 4th meeting | Direction of regional finance models from ESG perspectives – basic concept and issues to be clarified and confirmed, etc. – |
| 5th meeting | ESG’s potential for increasing dialogues with borrower companies and improving effectiveness of evaluating business potential (e.g.: ingenuities and improvements in the practices contributing to sustainable business models). |
| 6th meeting | The role of indirect finance for realizing SDGs and building a sustainable society . |
| 7th meeting | Discussions on the draft recommendation, etc. |



About the High Level Meeting on ESG Finance

The committee members and other participants

■ Direct finance

- **Seiji Inagaki**, President and Representative Director, The Dai-ichi Life Insurance Company, Limited
- **Toshihiro Iwasaki**, Chairman, The Investment Trusts Association, Japan
- **Akiyoshi Oba**, Chairman, Japan Investment Advisers Association
- **Shigeharu Suzuki**, Chairman and CEO, Japan Securities Dealers Association
- **Daisuke Hamaguchi**, Senior Executive Director and Chief Investment Officer, Pension Fund Association
- **Hikomichi Mizuno**, Executive Managing Director and CIO, Government Pension Investment Fund (GPIF) and Board Member of the Principles for Responsible Investment (PRI)
- **Koichiro Miyahara**, President & CEO, Tokyo Stock Exchange, Inc.

■ Indirect finance

- **Junnosuke Kuromoto**, (Former Chairman) The Second Association of Regional Banks, and President and Representative Director, The Tochigi Bank, Ltd.
- **Hidetoshi Sakuma**, (Former Chairman) Regional Banks Association of Japan, and President, The Chiba Bank, Ltd.
- **Koji Sato**, Chairman, The National Association of Shinkin Banks, and Chairman, The Tama Shinkin Bank
- **Koji Narita**, Director and Managing Executive Officer, Development Bank of Japan Inc.
- **Koji Fujiwara**, Chairman, Japanese Bankers Association, and President & CEO, Mizuho Bank, Ltd.
- **Mitsuo Makino**, Mayor of Iida City

■ Experts

- **Yuri Okina**, Chairperson of the Institute, The Japan Research Institute, Limited
- **Tetsuo Kitagawa**, Professor of Finance and Corporate Governance, Graduate School of International Management, Aoyama Gakuin University
- **Takejiro Sueyoshi**, Special Adviser, United Nations Environment Programme Finance Initiative (UNEP FI)
- **Hideto Tago**, Chairman, The Research Institute of Japanese Regional Economy
- **Rintaro Tamaki**, President, Japan Center for International Finance (Former Deputy Secretary-General, OECD)
- **Takeshi Mizuguchi**, Professor, Takasaki City University of Economics
- **Toshihiko Mori**, Chairman, Japan Personal Property Appraiser

■ Observers

Financial Services Agency, Ministry of Economy, Trade and Industry, and Bank of Japan

Recommendation from the High Level Meeting on ESG Finance — Toward becoming a big power in ESG finance — Outline (i)

1. Beginning of innovation toward decarbonization

- In an effort to shift to a decarbonized society and create a sustainable economic society realizing SDGs, financial sector's leadership is strongly called for in mainstreaming ESG finance(^{*}).

^{*}ESG finance: Finance with consideration for Environment, Social, and Corporate Governance

- **The central government's specific and consistent policy for a decarbonized society and its clear signal are indispensable.** Information related to climate changes will be used as an effective price signal for making decisions on investments and loans, when carbon pricing and information disclosure are developed. **This will accelerate a strategic shift in the allocation of all resources for move/transition to a sustainable society/economy, bringing in "new growth."**

2. Toward a swift establishment of ESG finance that supports sustainability of the country and regions

- Efforts to promote ESG finance must be made in indirect finance as well.
- We must increase the financial flows toward creation of a Regional Circular and Ecological Sphere.
- **In Japan's financial industry, the top management should show their will to promote ESG finance with a long-term perspective.**

3. Toward becoming a big power in ESG finance

- The Meeting members recommend a setup of the "ESG Finance High-Level Panel" (tentative name) as a place for discussions and actions for each industry leader in the financial and investment fields and regularly follow-up the progress of efforts based on this recommendation.
- Efforts with a view to every aspect of indirect finance across the regions will lead the world.
- For the upcoming G20, the Committee members recommend that the **public and private sectors work together** in creating **strategies for Japan to become a big power in ESG finance and implement the same in a steady manner,** utilizing domestic and overseas frameworks including the Principles for Financial Action for the 21st Century and PRI.

Recommendation from the High Level Meeting on ESG Finance — Toward becoming a big power in ESG finance — Outline (ii)

4. Acceleration of ESG investments in the direct finance market

(1) Toward productive dialogues regarding ESG information

(i) Promotion of information disclosure in light of the TCFD (Task Force on Climate-Related Financial Disclosures)

Information disclosure reflecting the recommendations of TCFD is now inevitable. The finance and non-finance sectors should take actions promptly.

- Understanding of climate-related risks/opportunities from a financial standpoint and presentation of how information disclosure should be handled by companies, as well as proactive engagement in the development of international framework.
- Support for scenario analysis and information disclosure based on TCFD.

(ii) Infrastructure improvement to encourage the disclosure of environmental information

- Development of a framework for encouraging disclosure of environmental information in light of global trends, as well as the improvement of infrastructure for information including ESG Dialogue Platform.
- The Corporate Governance Code clearly specifies that “non financial information” includes information on ESG factors.

(2) To impact sustainability of the environment and society

(i) Expansion of financial instruments taking into account ESG factors (particularly “E”).

Efforts to expand moves of considering ESG to all asset classes, such as financial instruments and real estate etc, are expected to be implemented.

- Expansion of the size of the green bond market.
- Consideration of a structure for selecting and publicizing environmental and sustainable stocks.
- Clarification of the policy on ESG investments by institutional investors (for example, investing in ESG-related issues if conditions are nearly the same).
- Provision of high quality financial instruments with ESG/SDGs awareness for individual, long-term investors.

(ii) Engagement by institutional investors etc.

- When institutional investors conduct an engagement or exercise voting rights, each investor is expected to consider ESG factors appropriately at their discretion.

(iii) Self-assessment and disclosure by parties in capital markets

- Parties involved in direct finance, especially institutional investors, are expected to make a self-assessment of the current efforts for ESG investments and disclose the results of the assessment voluntarily.

Recommendation from the High Level Meeting on ESG Finance — Toward becoming a big power in ESG finance — Outline (iii)

5. Toward promotion of ESG loans through indirect finance

(1) Simultaneous solution of regional social/economic challenges through regional ESG finance.

(i) Stance required for regional financial institutions as the core of the region.

- Establishment of a customer-oriented, sustainable business model is difficult without a perspective of customers' ESG challenges and regional SDGs. While having such recognition, regional financial institutions should have structures and human resources and work on lending based on evaluation of customers' business potential and support for main business lines.

(ii) Efforts toward realization of ESG regional finance

- ESG regional finance contributes to ensuring regional sustainability, that is, the revenue base.
- Discovery of local ESG challenges and involvement/cooperation in building new business by regional financial institutions.

(iii) Regional finance focused on “E” toward generation of a Regional Circular and Ecological Sphere

- Promotion of government's supply of risk money through “Green Fund” etc. remains important..

(iv) Importance of ESG-driven management of small- to medium- sized companies

- Fostering awareness for ESG-driven management by managers of small- to medium-sized businesses in regions.

(v) Restructuring of the ecosystem for regional finance

- Development and diversification of parties responsible for social finance.

(vi) Cooperation with local governments toward solution of regional challenges

- Local governments' awareness of their roles in ESG regional finance and improvement in the quality of their activities.

Recommendation from the High Level Meeting on ESG Finance — Toward becoming a big power in ESG finance — Outline (iv)

(2) Further spread of ESG loans

- **ESG loans support borrower companies to expand their business opportunities** by visualizing their non-financial strengths for the eyes of financial institutions.
- ESG loans need to be dealt with as one of the significant managerial strategies.

(3) Responses in indirect finance toward a decarbonized society with global trends in mind

- **Financial institutions are expected to disclose information on their efforts to address climate change issues and increase transparency.**
- **Quantitative assessment of loans for businesses** that contribute to solution of climate change issues **and its disclosure** in light of their size and characteristics **are also considered effective.**
- Improvement in transparency enables linkage with direct finance.

6. ESG finance literacy and research etc

(i) Improvement in ESG information literacy

- Building a programs for the development of analysts and specialists related to E.

(ii) Development of human resources supporting ESG regional finance

(iii) Improvement in ESG finance literacy of the public

(iv) Making honorable recognition of ESG finance that has had good social impact

(v) Research on ESG finance