

ESG Finance High-Level Panel Members List

Members

Tadashi Otsuka	Professor, Waseda University
Kazufumi Onishi	Mayor of Kumamoto City
Akiyoshi Oba	Chairperson, JAPAN INVESTMENT ADVISERS ASSOCIATION
Yasuyoshi Oya	Chairperson, Regional Banks Association of Japan; President, The Bank of Yokohama, Ltd.
Yuri Okina	Chairperson, The Japan Research Institute, Ltd.
Tetsuo Kitagawa	Professor Emeritus, Aoyama Gakuin University; Professor, Tokyo Metropolitan University
Takejiro Sueyoshi	Special Advisor, UNEP FI in Asia Pacific Region
Shigeharu Suzuki	Chairman and CEO, Japan Securities Dealers Association
Yukari Takamura	Professor, The University of Tokyo
Hideto Tago	Representative Director, The Research Institute of Japanese Regional Economy
Kazuho Tanaka	Chairperson, Japan Finance Corporation
Rintaro Tamaki	President, Japan Center for International Finance; Former Deputy Secretary-General of the OECD
Hiroshi Nakaso	Chairman, Daiwa Institute of Research, Ltd.
Yoshinori Nishikawa	Chairperson, The Second Association of Regional Banks; President, The Ehime Bank, Ltd.
Akio Negishi	Chairman, The Life Insurance Association of Japan; President, Meiji Yasuda Life Insurance Company
Shinichi Hirose	Chairperson, The General Insurance Association of Japan; President, Tokio Marine & Nichido Fire Insurance Co., Ltd.
Hiroshi Matsutani	Chairman, The Investment Trusts Association, Japan
Kanetsugu Mike	Chairman, Japanese Bankers Association; Chairman of the Board of Directors, Mitsubishi UFJ Financial Group, Inc.
Takeshi Mizuguchi	President, Takasaki City University of Economics
Kenichiro Mimuro	Chairperson, The National Association of Shinkin Banks; President, Hamamatsu Iwata Shinkin Bank
Hiroimi Yamaji	President & CEO, Tokyo Stock Exchange, Inc.
Toshihiko Mori	Chairperson, Japan Finance Professional Development Association
Eiichiro Yamane	Member of the Board of Directors, Managing Executive Officer, Development Bank of Japan Inc.
Takeshi Watanabe	Chairperson, Shinkumi Banks Association of Japan; President, The Ibaraki-ken Credit Corporative

Observers

Cabinet Office
Ministry of Finance
Ministry of Economy, Trade and Industry
Ministry of Land, Infrastructure, Transport and Tourism
Financial Services Agency
Bank of Japan
Keidanren (Japan Business Federation)
KEIZAI DOYUKAI (Japan Association of Corporate Executives)
Pension Fund Association
Principles for Financial Action for the 21st Century



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<https://www.env.go.jp/policy/esghighlevel.html>



ESG Finance High-Level Panel

ESG Finance High-Level Panel 4th Event Report

Friday, March 16, 2021

Venue: TOKYO INTERNATIONAL FORUM

Amid the global trend toward sustainable finance, ESG finance initiatives which consider environmental, social and governance ("ESG") factors have become increasingly and rapidly popular in Japan.

Based on the Recommendation from the High Level Meeting on ESG Finance published in July 2018, the Ministry of the Environment held the 4th ESG Finance High-Level Panel for further mainstreaming the country's ESG finance, with attendees representing a wide range of industries and sectors.

This leaflet provides the essence of these discussion.

Remarks from Minister of the Environment: Minister Koizumi,

Importance of the Regions in Achieving Carbon Neutrality

Region, the theme of this Panel, is exactly one of the key issues surrounding climate change policies. I believe that Japan will definitely become carbon neutral if we succeed in gaining regional involvement. For this purpose, the Ministry of the Environment has been supporting local governments. In fact, carbon neutrality was declared by local governments prior to the central government.

On the other hand, the problem currently faced by local governments is the lack of energy experts, information and funds. Regional financial institutions are expected to promote ESG-and SDGs-related initiatives and facilitate the funding towards decarbonization efforts by themselves. The ministry will also deepen the cooperation with relevant ministries to strengthen its support for regional decarbonization, while taking advantage of the opportunities at the Council for National and Local Decarbonization.



Keynote Address State Minister of Cabinet Office for Financial Services Ryosei Akazawa



FSA initiatives for sustainable finance and expectations for ESG regional finance

Despite being affected by the COVID-19 pandemic, ESG investment and sustainable finance grew significantly in both Japan and abroad in 2020, with the volume of green bonds issued by Japanese issuers exceeding 1 trillion yen for the first time and that of social bonds exceeding 900 billion yen. In 2020, Prime Minister Suga declared that Japan aims to achieve carbon neutrality by 2050, a tough challenge that involves a shift in the economy, society, and business models. Further, expectations are growing more than ever towards the role of finance to solve environmental and social issues and promote the structural transition of the socio-economy.

The FSA has already defined actions for sustainability materiality in the Corporate Governance Code and the Stewardship Code and supported companies and financial institutions engaged in disclosure in accordance with the TCFD recommendations on climate change. Furthermore, in a draft of the revised Corporate Governance Code published in April 2021, the FSA required the companies listed on the TSE Prime market to disclose in accordance with the TCFD recommendations or other guidelines. The Agency also believes that it is crucial for financial institutions as well as financial and capital markets to fulfill their functions adequately to facilitate investment of private funds in and outside Japan, towards corporate initiatives aiming to achieve a sustainable society, including carbon neutrality. In December 2020, the FSA established Expert Panel on Sustainable Finance to discuss issues in sustainable finance and response measures to be taken in Japan.

Since regional financial institutions have their basis on local economies, thus their growth is directly linked to the that of local economies. At the same time, they possess, among others, excellent human resources, trust from local communities, and regional networks. They are required to make use of such important resources to solve the issues surrounding local society and create additional value to be shared within the communities. Bearing this in mind, regional financial institutions are expected to promote ESG regional finance, in accordance with "The Shared Vision for Regional ESG Finance toward Sustainable Society" proposed by the ESG Regional Finance Task Force.

Amid situational changes on global and national scales, including COVID-19 preventive measures, digitalization, climate change initiatives, etc., expectations on the role of regional finance, such as the ability to identify new business opportunities, may grow ever higher. From this perspective, the FSA and the Ministry of the Environment launched the Collaborative Team to Achieve Revitalization and Sustainability of Regional Economic Societies on March 31, 2021. The team aims to take advantage of the insights and knowhow of the Agency and the Ministry to support the implementation of initiatives that contribute to effective resource utilization and materiality solutions in regional economies.

Report

1. Initiatives of the Ministry of the Environment (Director General for Environmental Policy Tokuya Wada (The Ministry of the Environment))

- In October 2020, Prime Minister Suga declared to achieve carbon neutrality by 2050, in his policy speech at the 203rd extraordinary Diet session. The speech called for the Ministry of the Environment's commitment to the creation of new regions, lifestyle reforms, and international information publishing.
- Council for National and Local Decarbonization, a meeting that discusses national and regional measures to achieve carbon neutrality, works to form a roadmap toward regional decarbonization.
- Regional decarbonization and stimulation of local economies will require the collaboration of all stakeholders, including regional financial institutions, local companies, and local governments. Ministry of the Environment promotes these initiatives in cooperation with other ministries and financial institutions.

2. ESG Regional Finance Task Force (Chair: Mr. Katsuke Takegahara (Development Bank of Japan))

- ESG Regional Finance Task Force was appointed by the ESG Finance High-Level Panel to formulate "The Shared Vision for Regional ESG Finance toward Sustainable Society".
- The vision organized the aim of financial institutions, based mainly on the following four points: (1) Significance of ESG regional finance; (2) Sharing goals and building an ecosystem; (3) Methods for involvement and the perspective of "Impact"; and (4) Commitments by managers.
- Amid the timeline shift due to the Carbon Neutral Declaration and the emergence of forward-thinking initiatives by regional financial institutions, "Practical Guide to ESG Regional Finance", a guide for regional financial institutions to implement ESG finance, was revised based on supports provided to regional financial institutions through ESG Regional Finance Promotion Program.

3. ESG Finance Initiatives Focusing on Platform Building (Mr. Koji Shimoyama (Tochigi Bank))

- A platform is essential to integrate resources distributed across the region. A platform which Tochigi Bank participates shares underlying issues and resources in the region with the participants, local companies and governments, to formulate ESG vision and solutions through backcasting.
- Ideal financial institutions shall expand their solutions to the whole community from a single company or individual, build horizontal relationship by sharing the platform's vision, become a hub for local governments and seek to achieve total optimization.
- Regional financial institutions are suitable players to establish a Regional Circular and Ecological Sphere that are functioned by funds, trust, regional intervention, and involvement with individuals and companies.

4. Climate Change Impact Analysis of Key Regional Industries (Mr. Masahiko Kobayashi (Hokuriku Bank))

- Aluminum industry has been selected as our focus area based on the following perspectives; influence on Bank's portfolio and region and the



consequences of climate change on the industry. Then conducted future impact analysis based on climate change and examined measures through interviews.

- Through these efforts, we came to a conclusion that customers themselves must realize specific issues in relation to their situation and for financial institution to provide solutions and financial support to solve issues revealed through project evaluation that takes external environmental factors into consideration.

5. Transition Finance (Mr. Fumihiko Kajikawa (Ministry of Economy, Trade and Industry))

- Realizing decarbonization will require transition and innovation, as well as financing for such initiatives.
- The Ministry of Economy, Trade and Industry established the "Taskforce on Preparation of the Environment for Transition Finance" jointly with the Ministry of the Environment and the Financial Services Agency, and formulated the "Basic Guidelines on Climate Transition Finance" which provides guidelines for issuing transition bonds and loans to raise funds for investments in decarbonization and low-carbon projects.
- While promoting transition finance initiatives in Japan is a priority, considering how to facilitate this movement among Asia, especially in ASEAN countries, is equally important.

6. Impact and Regional Finance (Chair: Mr. Takeshi Mizuguchi (Takasaki City University of Economics))

- Based on the "Declaration for Creating Positive Impact through Developed ESG Finance" at the 3rd ESG Finance High-Level Panel, the Positive Impact Finance Task Force compiled the "Guide to Green Impact Finance (provisional translation)" to organize concepts and methodologies in reference to international initiatives, etc.
- Impact finance has also been promoted by regional financial institutions. Shizuoka Bank, for example, developed a system for impact assessment for SMEs based on the "Principles for Positive Impact Finance", and has implemented it to a local company.
- The mission of the Task Force has been to develop a basic concept and formulate an assessment guide, but it has come to a phase of implementing initiatives for further promotion.

Opinion Exchange

In the opinion exchange session, discussions focused on three topics: (1) Regional issues and goals; (2) Issues and viewpoints of regional financial institutions; and (3) Collaboration and cooperation for implementing Impact Finance.

(1) Regional issues and goals

- What is important is for regional financial institutions, local governments, companies and universities to examine how to build an ecosystem, achieve carbon neutrality and implementation. (Ms. Yuri Okina, The Japan Research Institute, Ltd.)
- Regional financial institutions are required to promote business innovation, including environmental and disaster responses, in a new manner, and address bankruptcy risks that arose from the COVID-19 crisis. (Mr. Hideto Tago, The Research Institute of Japanese Regional Economy)
- The future of such transition may or may not be clear. A framework should be developed at the government level to help foresee what the transition could entail. (Mr. Rintaro Tamaki, Japan Center for International Finance)
- One of the immediate issues for regional finance that takes carbon neutrality into account is to examine specific issues facing financial institutions at the management level and disclose them in a strategic manner. (Mr. Hiroshi Nakaso, Daiwa Institute of Research, Ltd.)
- The government is now required to realize a fair and competitive market to achieve a circular economy. (Prof. Tadashi Otsuka, Waseda University)

(2) Issues and viewpoints of regional financial institutions

- The issues include how to secure the level of risk-return required for business partners, financial institutions to engage in sustainable finance in a sustainable manner, and how to develop impact assessment methodologies based on scientific evidence. (Japanese Bankers Association)
- We need to examine incentives, etc. for business partners to promote decarbonization initiatives. (Regional Banks Association of Japan)
- Addressing regional issues will require the cooperation of various stakeholders including local companies and realizing this will require a leader who promotes such cooperation, as well as a common language, such as impact assessment, to form a consensus, and a monetization mechanism. (The Second Association of Regional Banks)
- The participation of local governments and other stakeholders is essential for the dissemination of the concept of SDGs and ESG and for sustainable regional growth. As we will engage in active dialogue and deepen mutual understanding, we would also like to request the relevant authorities to create a scheme, etc. that help us to cooperate with local governments. (The National Association of Shinkin Banks)
- Amid the transformation into a low-carbon society, we must be continuously engaged in dialogue and provide support than ever to our business partners, who face a loss of ability to respond to changes and business motivation due to the aging of business owners. (Shinkumi Banks Association of Japan)

(3) Collaboration and cooperation for implementing Impact Finance

- Initiatives within the region will advance when local governments pay

attention and check the consistency between their plans and the local financial institutions' mid-term management plans and incorporate relevant initiatives into their plans, while financial institutions to implement initiatives aligned with the local government's plan. (Mr. Kazufumi Onishi, Mayor of Kumamoto City)

- The following three points of ESG finance becomes essential when SMEs facilitate carbon neutral activities: (1) Implementation of impact financing; (2) Promotion of inter-ministry collaboration; and (3) Realization of partnerships to create a Regional Circular and Ecological Sphere. (Mr. Toshihiko Mori, Japan Finance Professional Development Association)
- Various types of collaboration are possible including those lead by large-sized regional banks, shinkin banks to cooperative banks. (Mr. Eiichiro Yamane, Development Bank of Japan Inc.)
- Two green bonds have been issued by regional banks and underwritten by the securities industry. We will continue to support the flow of regional ESG investment funds from the aspect of direct financing. (Japan Securities Dealers Association)
- From the perspective of fund managers, a regional financial institution can be considered as an investor who seeks investment opportunities in local projects. (The Investment Trusts Association)
- As part of an effort to incorporate ESG perspectives into SMEs' management, regional finance could provide a new medium- to long-term perspective to SMEs' whose management tends to have a biased short-term perspective, especially under the COVID-19 pandemic. (Prof. Yukari Takamura, The University of Tokyo)
- We hope to provide an assessment of our lending's contributions to green in a simple manner and show SMEs the benefits of ESG- and SDGs-related finance. (Japan Finance Corporation)

The remarks on future expectations were as follows.

- In the 2nd ESG Finance Awards, the Gold prize for the Indirect Finance sector was awarded to a regional bank for its superior activities. This is an epoch-making event. (Prof. Tetsuo Kitagawa, Aoyama Gakuin University)
- Changes to Japan's financial system appear to be lagging behind compared to those in other countries in terms of speed and substance. If the panel has been established as a reporting and discussion body to make Japan an ESG financial giant, financial institutions must be seriously committed to taking actions that would bring about real impact. (Mr. Takejiro Sueyoshi, United Nations Environment Programme Finance Initiative)

