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# **MOE Japan Policy Package on Green Finance**

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# MOE's Three Pillars in Promoting Green Finance

MOE Japan promotes green finance to further increase the capital flow taking into account ESG factors and generate positive environmental impacts through such investments.

## 1 Foster sustainable finance market

- Develop guidelines for green-related financial products (GL, GB, SLL, SLB)
- Engage in development of guidelines for other sustainability related products (transition finance, impact finance, social finance etc)
- Provide grants for green-related financial products
- Facilitate the High-Level Panel on ESG Finance to bring together stakeholders and promote ESG finance
- Provide market data and related information via Green Finance Portal to support market development

## 2 Support ESG regional finance

- Support regional FIs accelerating ESG Finance through Practical Guide to ESG Regional Finance, promotion programs, green funds, and interest subsidies

## 3 Promote FI's ESG commitments and engagement based on ESG disclosures

- Support FI's climate information disclosures through capacity-building programs and pilot programs  
FY2022: TCFD 101 for regional banks, Portfolio Carbon Analysis Pilot Program
- Promote information disclosures in other environmental areas, such as CE and nature and biodiversity (TNFD)  
FY2021: MOE joined the TNFD Forum with JFSA

# MOE's Updated Guidelines for Green Financial Products (July 2022)

- ◆ The new “Green Bond and Sustainability-Linked Bond Guidelines” and updated “Green Loan and Sustainability-Linked Loan Guidelines” are based on the revision of previous guidelines with extended scopes to include sustainability-linked bonds.
- ◆ The guidelines are **in line with the latest principles of ICMA, APLMA, LMA, and LSTA.**
- ◆ The revised guidelines **aim to promote proper and sound development of the sustainable finance market in Japan by attracting more participants and improving market transparency.**
- ◆ Under further update during FY 2023

## Key points

### Improve convenience to attract more issuers

- ✓ Provide **new guidance on evaluation criteria for green eligibility** as well as **the updated list of eligible green projects with KPIs and examples of associated environmental risks**

### Facilitate disclosures by issuers to improve transparency

- ✓ Set Green Bond Framework and external reviews as key recommendations for issuers
- ✓ Require issuers to identify, mitigate and manage negative effects associated with projects

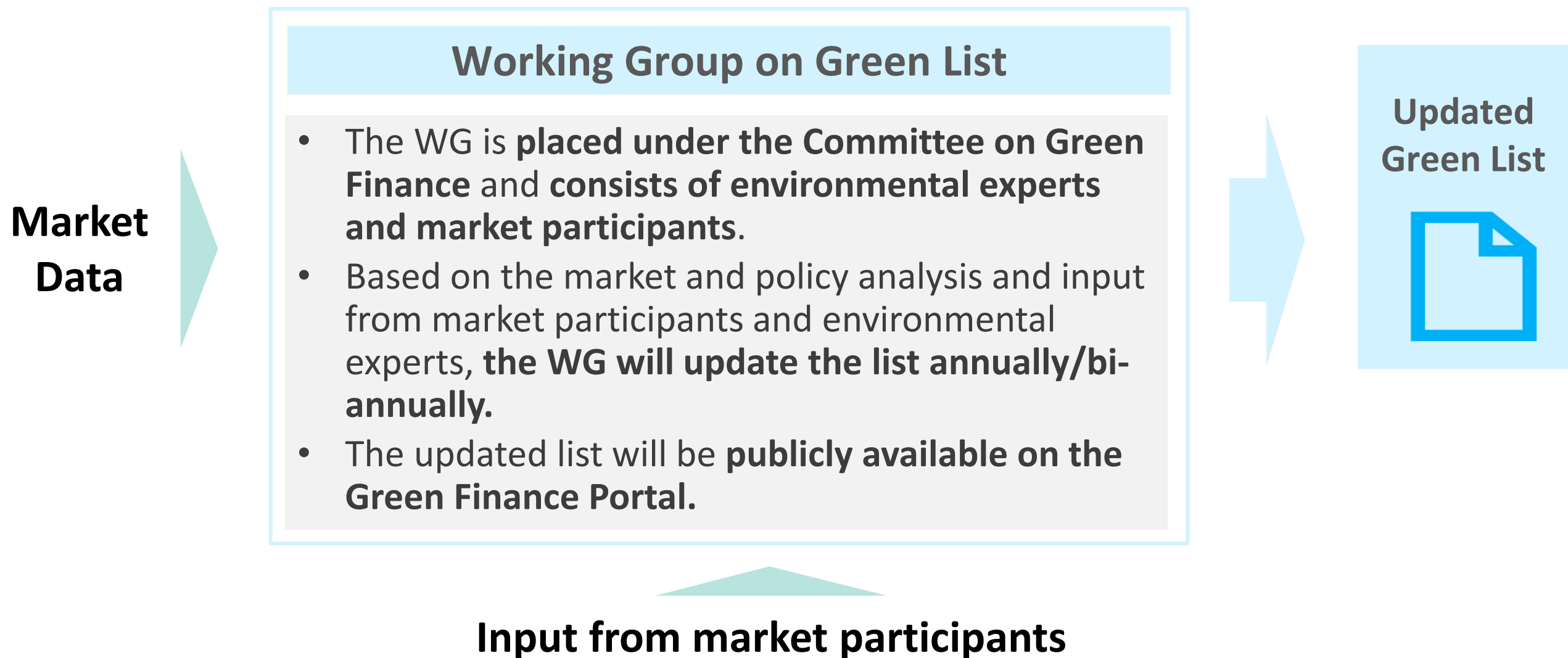
### The first guidelines for Sustainability Linked Bonds in Japan

- ✓ Provide **new Sustainability-Linked Bond Guidelines** to foster fair market for growing SLB



## Further Elaboration on Green List

- ◆ Further development of the list of eligible green projects, KPIs, associated negative environmental impact can lead to **scaling up green finance in new areas as well as attracting new market participants**. It can also **enhance market transparency**.
- ◆ MOE **has launched a new working group** to continue to updating the list in order to reflect the market development and insights from market participants as well as experts.



# New Guidance on Evaluation Criteria for Green Eligibility

The eligibility of Green Projects should be determined by comprehensively assessing the following four points:

## 1 Generate positive environmental impact

- ✓ It can be logically explained that the output achieved through the green project will lead to achieving the intended environmental objectives and generating positive impact.

## 2 Represent a material improvement in an environmental KPI compared to a BAU trajectory

- ✓ It is objectively evident that environmental benefits will be generated through the project implementation, or the project will clearly produce environmental benefits in light of socioeconomic conditions, such as the introduction of renewable energy facilities in the field of climate change mitigation.

## 3 Be consistent with long-term goals

- ✓ In the case where long-term environmental goals exist at the global level, or at the country, region or sector level where the issuer/borrower is located or where the project is implemented, with respect to such goals to be achieved by the implementation of the project, there should be consistency between the project goal and the achievement of these long-term objectives (e.g., Japan's carbon neutrality by 2050) in principle, and there is no apparent inconsistency.

## 4 Have a process to identify and manage perceived negative impact

- ✓ The project has a process by which negative impacts that can be caused through the project implementation are identified, mitigated and managed.

# Green Finance Grant Program

## since April 2018

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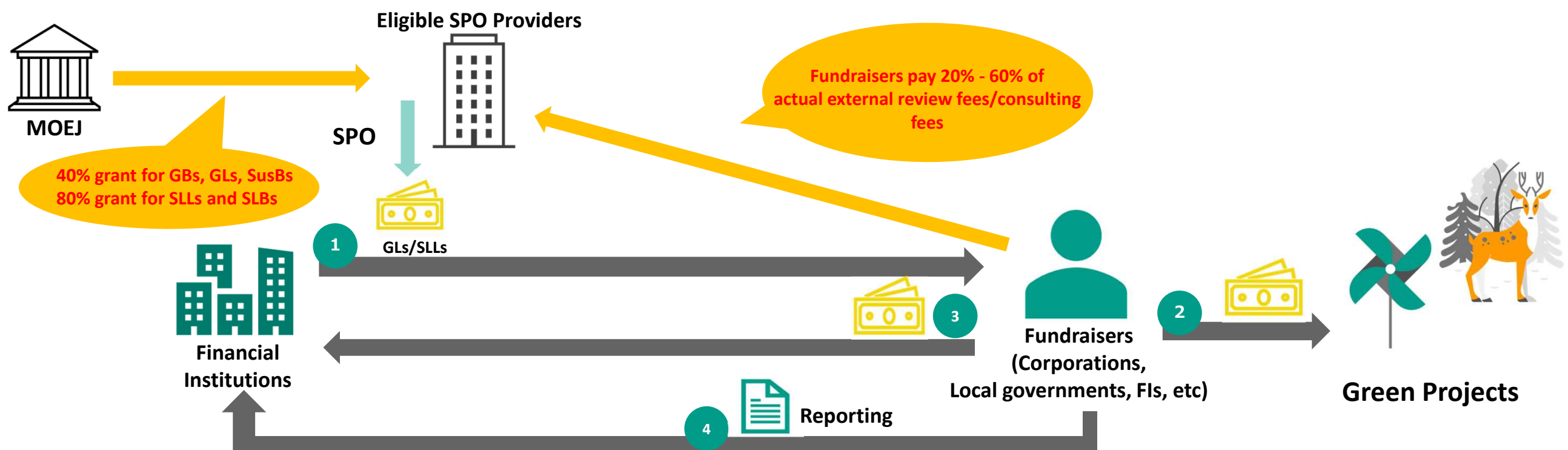
### Defray extra expenses required for GBs, SusBs, SLBs, SLLs to channel more financing towards green

- ✓ The grant will cover 40%-80% of external review fees as well as consulting fees per each bond or loan.
- ✓ The MOE expanded the scope of the existing grant program to include sustainability-linked loans and sustainability bonds in May 2023.

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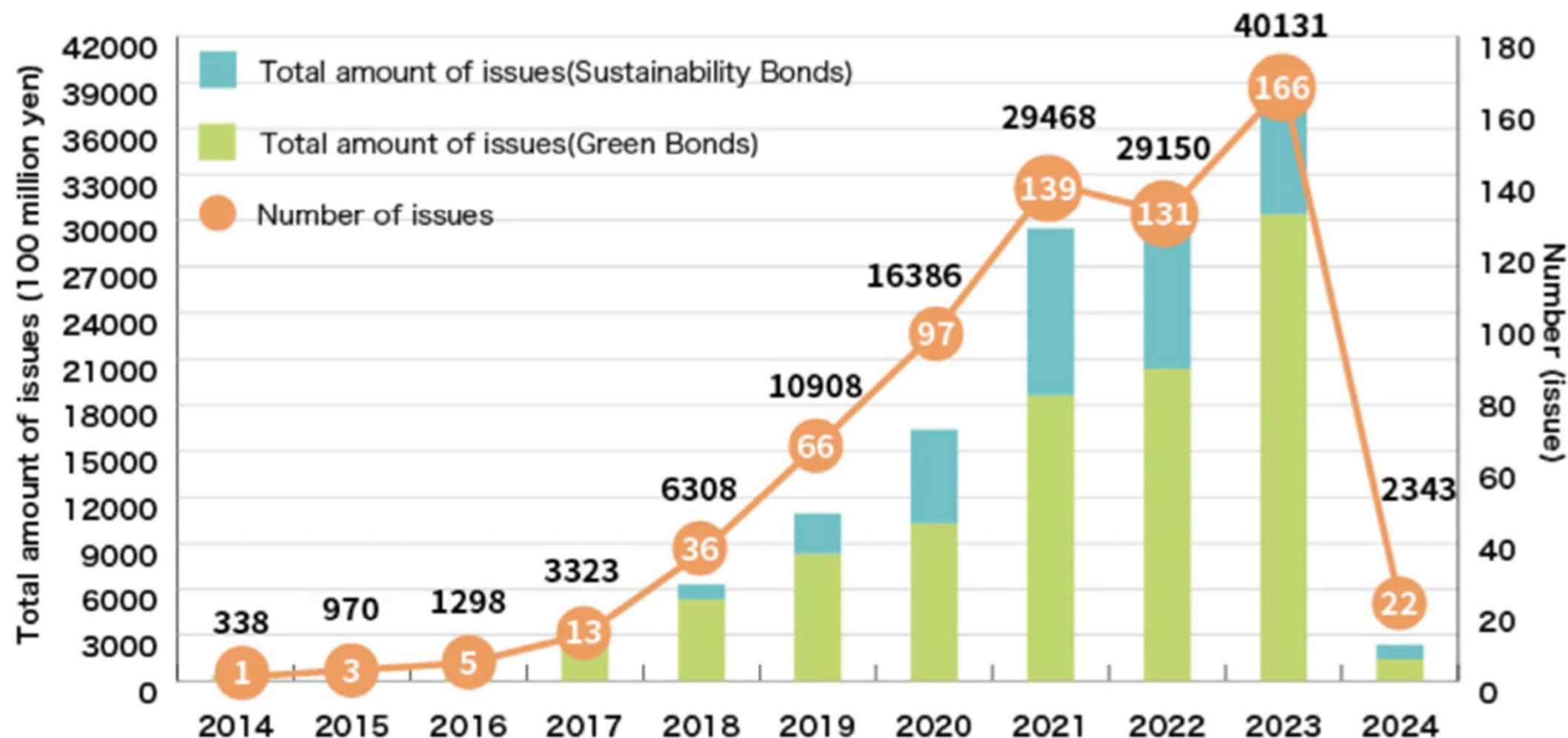
### Avoid green washing by approving SPO providers and consulting for the grant scheme

- ✓ The MOE approves eligible SPO providers and consulting firms that can apply for the grant scheme based on their competence to support green financing in order to avoid green washing.
- ✓ Fundraisers can find eligible SPO providers and consulting firms on Green Finance Portal (MOE's green finance website.)





## ■ Issuance of Green Bonds and Sustainability Bonds by Japanese Companies and Other Entities



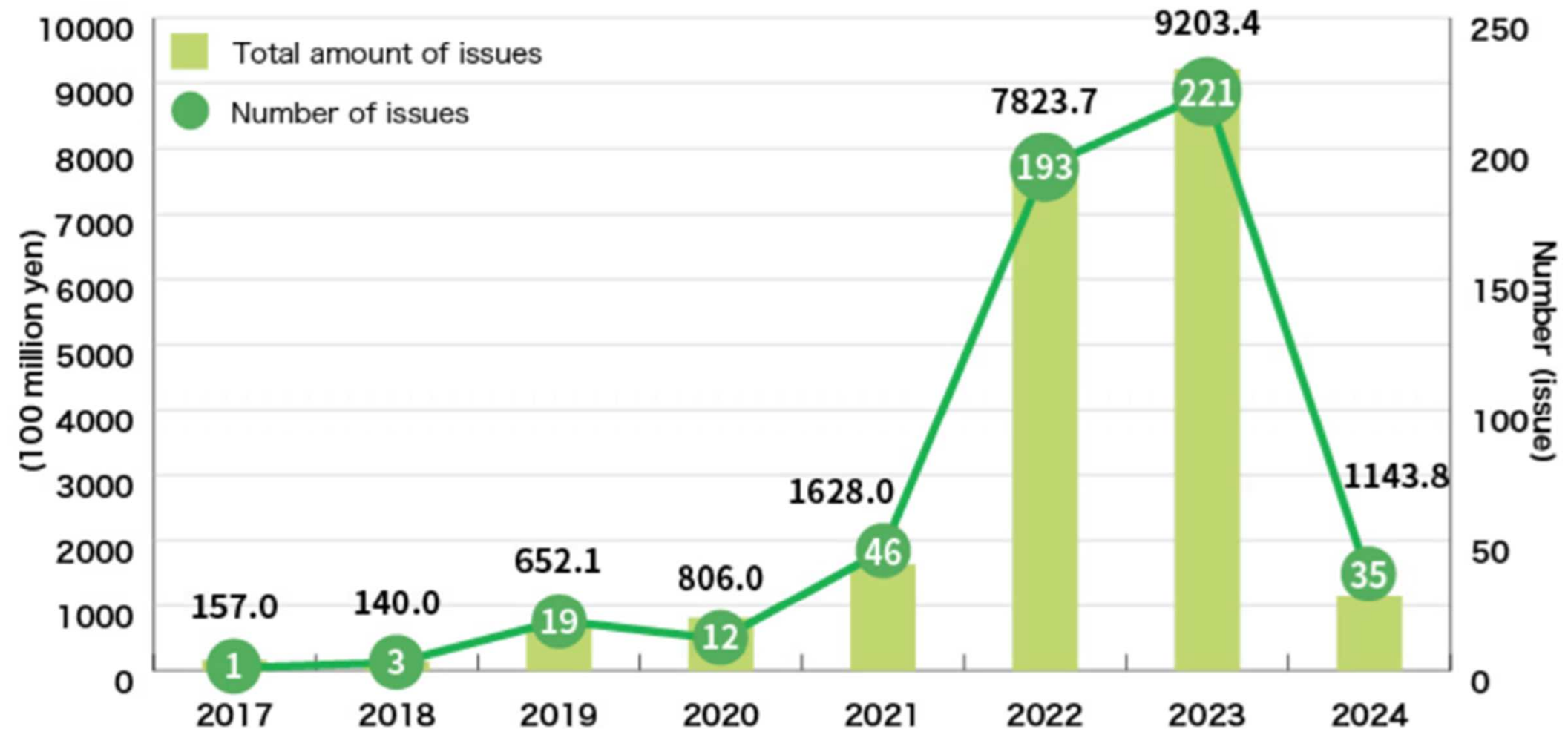
As of March 4, 2024

Exchange rates: USD1=JPY110, EUR1=JPY135, AUD1=JPY90

Source: Created by the Ministry of the Environment based on websites of the issuers

\* This database is not screened by the Ministry of the Environment and is compiled based on the labeling declared by issuers and financial institutions.

## Green Loan Amount in Japan



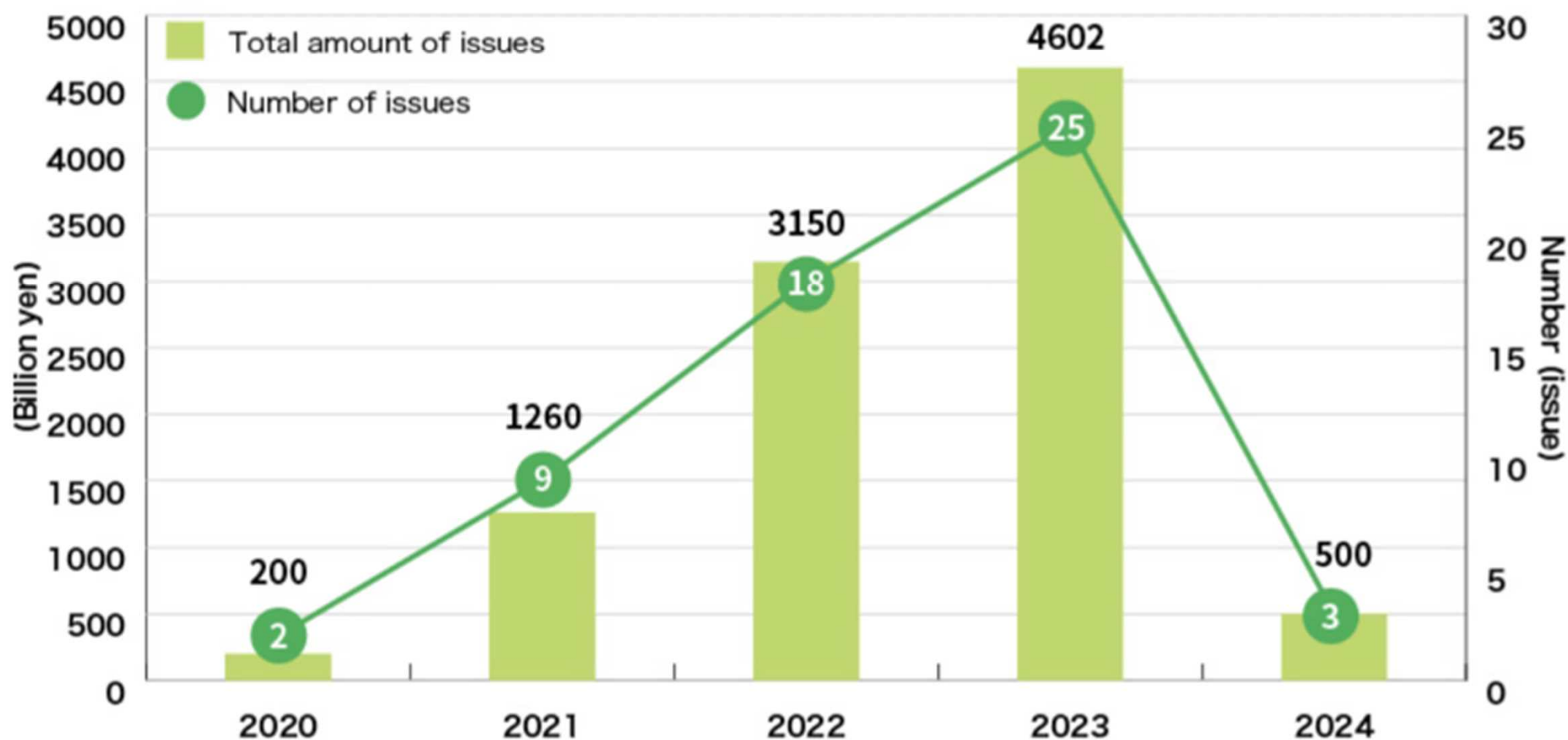
As of March 4, 2024

\* This database is not screened by the Ministry of the Environment and is compiled based on the labeling declared by issuers and financial institutions.

\* In regards to the loan whose amount is undisclosed, only the number of deals is reported, not the origination amount.



## ■ Issuance of Sustainability-Linked Bonds by Japanese Companies and Other Entities

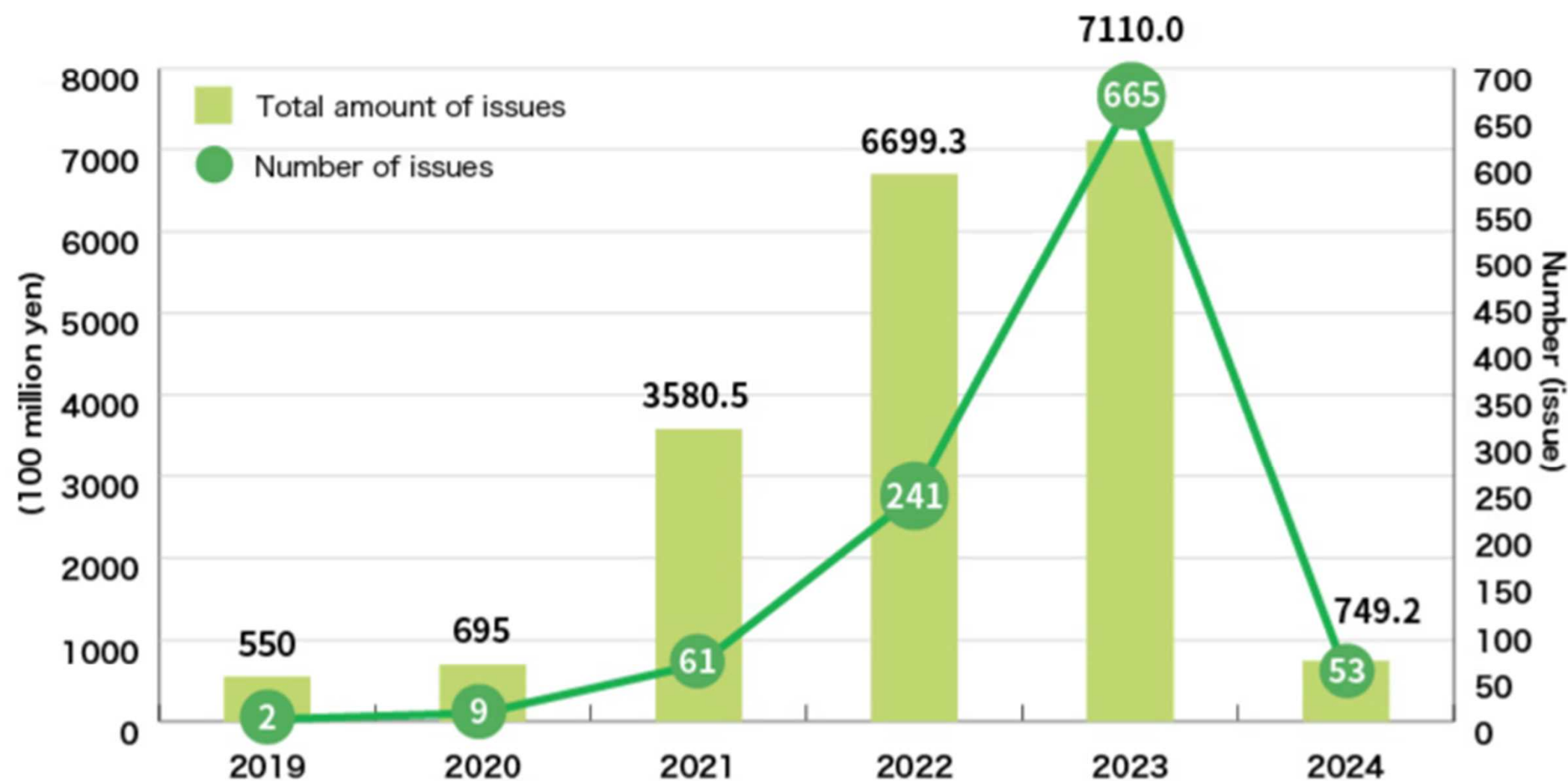


As of March 4, 2024

Prepared by the Ministry of the Environment based on the websites of fundraisers, financial institutions, and third-party evaluation institutions

\* This database is not screened by the Ministry of the Environment and is compiled based on the labeling declared by issuers and financial institutions.

## ■ Sustainability Linked Loan Amount in Japan



As of March 4, 2024

\* This database is not screened by the Ministry of the Environment and is compiled based on the labeling declared by issuers and financial institutions.

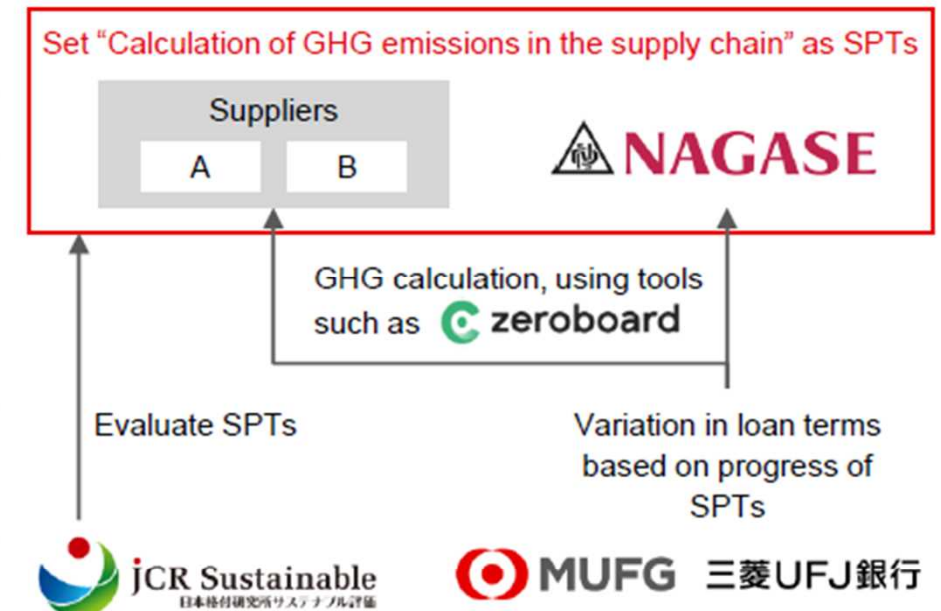
\* In regards to the loan whose amount is undisclosed, only the number of deals is reported, not the origination amount.



## (Case Study) SLL Framework for Nagase & Co., Ltd. and its Supplier

First SLL in Japan to set “Calculation and Reduction of GHG emissions in the supply chain” as SPTs

Outline of the scheme	
Developer of the framework	Nagase & Co., Ltd.
Borrower	Nagase and its suppliers working on GHG emissions calculation based on this framework.
Sustainability Coordinator	MUFG Bank, Ltd.
SPTs	<p><u>SPT1 (SPT to be used in SLL for Nagase)</u>  SPT1-1: Reduce Nagase group's GHG emissions (scope 3) by 12.3% in FY 2030 (compared to FY 2020)  SPT1-2: Calculate and disclose 30% of the scope 3 category 1 in FY 2030 using actual emissions data to be received from suppliers</p> <p><u>SPT2 (SPT to be used in SLL for Suppliers)</u>  Calculate GHG emissions of Nagase group's suppliers that fall under scope 3 (scope 1, 2 or emissions per product/service) by FY2030.</p>
External Evaluation	<p>Selected as model case in the FY 2022 Green Finance Model Case Study Creation Project</p> <p>Evaluated by Japan Credit Rating Agency, Ltd. (JCR)</p>



### Main reasons for selection as green finance model case

#### [Positive environmental impact/progressiveness of KPI]

- Progressive in the point that a trading company is trying to calculate GHG emissions of their suppliers in collaboration with various stakeholders
- Progressive in attempt to calculate carbon footprint in the chemical industry, a sector with complex supply chain

#### [Ambitiousness of SPTs]

- For scope3, where actual GHG emissions calculation has not been done in many cases, Nagase aims to promote the use of actual emissions data from primary source, while it is difficult to calculate carbon footprint of many linkage products in the chemical industries
- Nagase's scope 3 currently uses all estimates based on GHG protocol. Few companies in Japan and overseas have established a system to switch to, understand, and manage primary data

### Nagase's policy and background of this scheme

#### [Nagase's policy]

- Nagase is a chemical specialty trading company that aims to achieve carbon neutrality by 2050 and to reduce GHG emissions by 46% (Scope 1, 2) compared to FY 2013 and 12.3% (Scope 3) compared to FY 2020 by FY 2030.
- For Nagase, scope 3 accounts for more than 97% of the group's GHG emissions. In order to support calculation and reduction of GHG emissions in the supply chain, in September 2021 Nagase started its collaboration with Zeroboard Inc..

#### [Background]

- In order to reduce scope 3 emissions, emissions must be calculated on actual emission basis, at least partially. However, suppliers, especially SMEs, lack resources and incentives to calculate GHG emissions
- MUFG Bank and Nagase agreed that in order to realize a decarbonized society, it is necessary to create platforms and incentives to choose low-carbon or products with disclosed GHG emissions information

## Current status and issues

- With many listed financial institutions moving to the TSE prime market, TCFD has become a mandatory subject for regional FIs. On the other hand, it is necessary to build one's own business strategy through disclosures, rather than just disclose information.
- To this end, MOE has provided support to regional FIs to help them widely understand the purpose of TCFD disclosure and to analyze their own portfolios through the calculation of emissions from their investments and loans, and to consider strategies to decarbonize their businesses.
- These efforts aim to strongly promote the decarbonization of regional companies through regional financial institutions.

## Overview of the 2022 projects

### 1. Capacity Building Program : TCFD 101 for regional FIs

- Organize capacity building workshops for 69 regional FIs (both staff-level and executive-level)
- Aim to publish a guidance on TCFD for regional FIs based on takeaways from the workshops

### 2. Portfolio Carbon Analysis Pilot Program

- Provide support for carbon analyses by individual FIs
- Organize seminars for domestic investors and FIs to share the result of the pilot program



- ◆ The Ministry of the Environment established the High-Level Panel on ESG Finance in 2019, based on the recommendations of High Level Meeting on ESG Finance compiled in July 2018, as a forum for leaders from the finance and investment sectors and government to work together to discuss and take action on ESG finance awareness and initiatives.
- ◆ It has held 6 meetings so far and will hold the 7<sup>th</sup> during this FY 2023.

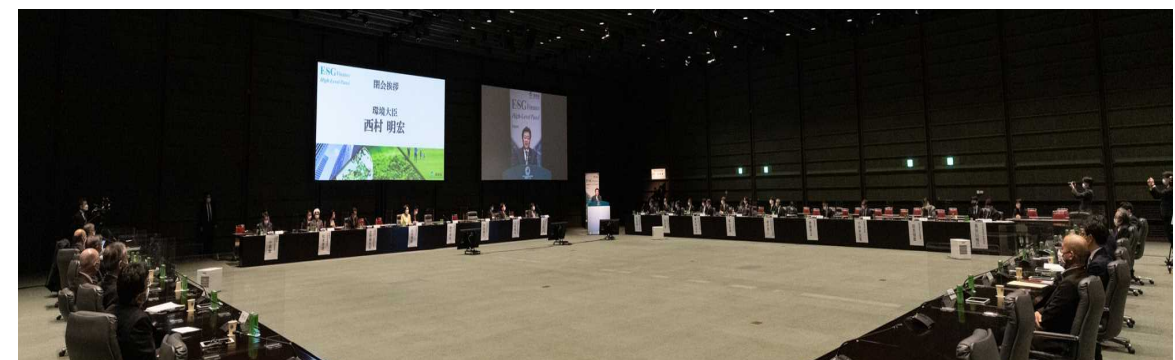
## The members and observers for 7<sup>th</sup> meeting in FY 2023

GOTO Hisashi	Chairperson, Regional Banks Association of Japan
HAYASHI Nobumitsu	Governor, Japan Bank for International Cooperation
IWANAGA Moriyuki	President & CEO, Tokyo Stock Exchange, Inc.
KATO Masahiko	Chairperson, Japanese Bankers Association
KITAGAWA Tetsuo	Professor Emeritus, Aoyama Gakuin University Professor, Tokyo Metropolitan University
KUMAGAI Toshiyuki	Chairperson, The Second Association of Regional Banks
MATSUSHITA Koichi	Chairperson, The Investment Trusts Association, Japan
MIMURO Kenichiro	Chairperson, The National Association of Shinkin Banks
MIZUGUCHI Takeshi	President, Takasaki City University of Economics
MORI Toshihiko	Chairperson, Japan Finance Professional Development Association
MORITA Toshio	Chairperson and CEO, Japan Securities Dealers Association
NAKASO Hiroshi	Chairperson, Daiwa Institute of Research, Ltd.
NIIRO Keisuke	Chairperson, The General Insurance Association of Japan
OBA Akiyoshi	Chairperson, Japan Investment Advisers Association
OKINA Yuri	Chairperson, The Japan Research Institute, Ltd
ONISHI Kazufumi	Mayor, City of Kumamoto
OTA Mitsuru	Deputy President, Development Bank of Japan Inc.
OTSUKA Tadashi	Professor, Waseda University
SHIMIZU Hiroshi	Chairperson, The Life Insurance Association of Japan
SUEYOSHI Takejiro	Special Advisor, UNEP FI in Asia Pacific Region

TAGO Hideto	Representative Director, The Research Institute of Japanese Regional Economy
TAKAMURA Yukari	Professor, Institute for Future Initiatives, The University of Tokyo
TAMAKI Rintaro	President, Japan Center for International Finance
TANAKA Kazuho	Governor & CEO, Japan Finance Corporation
UMEDA Kei	Chairperson, Trust Companies Association of Japan
YANAGISAWA Shoji	Chairperson, Shinkumi Banks Association of Japan

### 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



- ◆ On the occasion of PRI in Person in Tokyo, the High-Level Panel expressed its strong approbation for the efforts of the PRI and made a declaration below to further promote ESG finance in Japan through collective efforts by the public and private sectors.

## Declaration on Propelling Responsible Investment to Achieve Net Zero, Circular and Nature Positive Economy

### 1. Further Promotion of ESG Finance

The Panel supports the approach of Investing For Sustainable Impact (IFSI) proposed in the PRI's 2021 Report. Japanese financial institutions commit to have explicit intentions to generate environmental benefits and positive impact in their investments and embody and address these intentions in their own strategies, so as to drive the market and strongly promote ESG finance in terms of both quality and quantity.

### 2. Reinforcement of engagement with corporates

Japanese financial institutions mobilize all types of financing in cooperation with the public and private sectors for the massive investments required to achieve Green Transformation (GX), and reinforce attentive engagement tailored to the size, transition strategies, and regional specificities of companies to support their efforts to achieve net zero, circular and nature positive economy.

### 3. Promotion of ESG investment with a focus on long-term investors

It is all the more necessary to scale up ESG finance to realize net zero, circular and nature positive economy. Especially in Japan, investors, mainly but not exclusively asset owners such as pension funds and life insurance companies, will continue to expand ESG investments for the best interests of their beneficiaries and clients.



- ◆ MOE's Green Finance Portal is the first green debt data base in Japan, aiming to develop the green finance market.
- ◆ It covers basic information on each green debt product, such as green bonds and loans, related policy information, and market data, including but not limited to a list of issuances and aggregated charts by each financial product.



<http://greenfinanceportal.env.go.jp>



## News

2023.08.31	News	List of Notification of Decisions to Grant the Subsidy updated [ <a href="#">Link</a> ]
2023.08.31	News	Market Status Updated [ <a href="#">Link</a> <a href="#">Green Bonds</a> , <a href="#">Sustainability Linked Bonds</a> , <a href="#">Green Loans</a> , <a href="#">Sustainability Linked Loans</a> ]
2023.08.25	News	List of Notification of Decisions to Grant the Subsidy updated [ <a href="#">Link</a> ]
2023.08.25	News	Issuance List (Domestic) updated [ <a href="#">Link</a> <a href="#">Green Bonds</a> , <a href="#">Sustainability Linked Bonds</a> , <a href="#">Green Loans</a> , <a href="#">Sustainability Linked Loans</a> ]
2023.08.25	News	Market Status Updated [ <a href="#">Link</a> <a href="#">Green Bonds</a> , <a href="#">Sustainability Linked Bonds</a> , <a href="#">Green Loans</a> , <a href="#">Sustainability Linked Loans</a> ]

