

JPX Sustainable Finance Platform Development Working Group
First Report

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Introduction

The movement towards carbon neutrality is accelerating in countries and regions across the world. In the financial markets, too, there is a growing recognition of the role of sustainable finance in stimulating the shift to new kinds of industrial and societal structures.

In its Report in June last year, the Expert Panel on Sustainable Finance, convened by the Japanese Financial Services Agency (FSA), recommended various finance-related actions which could attract global ESG investment capital to Japan and make sure that this capital is utilized for Japan's sustainable growth by supporting the activities of those Japanese companies that have the skills and potential to contribute to decarbonization. These actions included enhancing corporate disclosure, improving the transparency of ESG-related investment funds, and creating a code of conduct for ESG review providers.

In particular, from the perspective of utilizing the functions of the capital market, the Panel pointed out the importance of enabling access to information in the fast-growing area of "green" investment, which would be useful for the operations of both issuing organizations and investors. It recommended the creation of a "platform" for ESG-related financial products and the building of a framework to provide "objective certification of the eligibility" of bonds for an ESG label.

The sustainable finance market is seeing explosive growth globally, with the focus of ESG investment widening from mainly equities to many other asset classes, such as fixed income (green bonds, etc.) and loans. ESG investment is also seeing multi-faceted development in Japan. While Japan's ESG bond market is still small compared to those in Europe and the US, issuance volumes are continuing to climb. However, as the market's growth rapidly progresses, investors, issuers and other market players have raised several concerns.

From the investor side, attention has been brought to the high cost of gathering information for ESG investment compared to traditional equity and fixed income investment. The reality is that the wide range of available information related to ESG investment is scattered around the websites of individual issuers, review providers, securities companies, and others, with no compilation of information from across the market, meaning that it is difficult to gain a comprehensive picture of the wide-ranging trends within ESG investment such as decarbonization or environmental and social impacts.

From the perspective of fund-raising organizations, in the case of ESG bonds, for example, discussions about raising and utilizing funds, such as which of the company's projects or initiatives are appropriate for ESG-focused funding or what kind of post-issuance disclosure will be necessary on the company's strategy and other aspects, have to be carried out with knowledge of the market environment – in other words, examples of issuance from other companies. Since there are no compilations of this kind of information, the resources needed for information gathering can be an operational burden.

Globally, as ESG investment grows both in size and scope, there is a new focus on the importance of ensuring that investment products with an ESG label are in fact eligible for that label – tackling so-called "greenwashing". Green bonds, for example, are usually considered to be bonds whose proceeds are invested in projects that "offer environmental benefits"¹, but standards or guidance which enable a wide range of investors, issuers, or others to objectively understand and evaluate what "environmental benefits" specifically include are still under development.

In view of the above-mentioned recommendations of the Expert Panel on Sustainable Finance, in October last year, Japan Exchange Group (JPX) set up the Sustainable Finance Platform Development Working Group to consider the practical issues around, among other things, the creation of an "information platform" that collates a wide range of information on green bonds and similar products. This aimed to contribute to widening the reach of ESG investment in Japan through tackling, as far as is currently possible, the issues that surround it.

This Report summarizes the Working Group's discussions so far. It also sets out practical aspects of how the platform should look and the issues that will need to be tackled to ensure further enhancement and transparency of the market in the future, as well as possible responses to those issues, with the aim of contributing to the sustainable development of the market and wider economy by spurring deeper dialogue on ESG among all market players including issuers, investors, and review providers.

As well as kick-starting JPX's work to create the platform itself, we would like to make sure that this Report becomes a catalyst for advancing discussions on sustainable finance

¹ The Japanese Ministry of the Environment's "Green Bond Guidelines 2020" state that "Green Bonds are bonds where the proceeds are invested exclusively in projects that offer environmental benefits (Green Projects)".

among the wide range of players involved in the Japanese market, leading to further action in the future.

Section I: The Sustainable Finance Market in Japan and Barriers to Its Development

1. The Sustainable Finance Market in Japan

The Japanese sustainable finance market has been showing exceptional growth for the past few years. According to the Global Sustainable Investment Alliance (GSIA), which calculates the amount of sustainable investing assets globally, Japan's total sustainable investing assets grew from only 474 billion USD in 2016 to over 2.8 trillion in 2020.

GSIA also calculates that the proportion of Japanese sustainable investing assets relative to total managed assets grew from only around 3% in 2016 to as much as 24% in 2020. Japan as a single country now contributes around 8% of global sustainable investing assets, a figure which has also been growing steadily.

A similar trend can be seen specifically in ESG bonds such as green bonds (and investment in them). According to data from international NGO the Climate Bonds Initiative², Japan's ESG bond market is following the same growth trends as previously seen in overseas markets, and the Japanese Ministry of the Environment (MoE) estimates³ that issuance of green bonds grew to 1.8 trillion JPY in 2021. Similarly, data from the Japan Securities Dealers Association shows that issuance of SDG bonds in Japan was around 2.1 trillion JPY in 2020.

Although the Japanese market may seem limited in a simple size comparison with the Europe and US, looking from a broader perspective, as action on carbon neutrality and other goals is expected to intensify further both inside and outside of Japan, this country can expect to see further growth in ESG investment in the same way as overseas.

² <https://www.climatebonds.net/market/data/>

³ MoE "Climate Finance Portal"

2. Barriers to Development of the Sustainable Finance Market

There are various barriers to the development of the sustainable finance market, but this Working Group focused on issues surrounding ease of access to necessary information for market players and ESG label eligibility for bonds and similar products.

First, as the amount of capital allocated to ESG grows rapidly with no signs of slowing down, market players including investors and fundraising organizations have pointed out that issuance amounts, prices, and various other kinds of information relating to ESG investment are fragmented, causing practical issues for investment and raising capital.

ESG investment requires not just financial information but non-financial (e.g., ESG) information, as well as the specialist information and knowledge needed to effectively utilize it. The creation of a hub-type platform that gathers and shows a wide range of this information, making it accessible to all market players including investors, issuers and review providers in one place, is crucial to ensure robust development of the ESG investment market in the future.

One other issue that has been raised is regarding ESG bonds such as green bonds and transition bonds. It is common practice for a third party other than investors or the issuer (a specialist review agency, for example) to provide an external review on whether elements of the bond such as the issuing organization's activities and the planned use of proceeds make it eligible for an ESG label based on, among other things, domestic or international guidelines and recent examples from the market. However, as there are a great many different domestic and international guidelines, review providers, and market examples, it is difficult to grasp one set of standards that can be used for those reviews in practice.

There are also many types of external reviews depending on the kind of verification given or scope of responsibility⁴, but in order to evaluate whether a certain bond's use of proceeds makes it eligible for a label like "green" or "transition", there is a need to deliberate from various perspectives: not just from the finance side, but also specialized perspectives on technology and industry, and trends in discussion and the situation on the ground globally⁵.

⁴ The International Capital Markets Association (ICMA), which has been publishing its own standards for bond eligibility for a number of years, considers that external reviews can be split into four types: Second Party Opinion (SPO), scoring/rating, verification, and certification.

⁵ Review providers attest to using a large variety of guidelines including not just the generalized

To add to this, global trends and market realities are constantly shifting.

Green bonds, for example, are often defined as bonds that have a clear positive environmental effect, but there is not necessarily a consensus on what specific activities that includes. While setting some kind of numerical standard for what can be called "green" would lead to more transparency, there are also concerns that it would lead to inflexible decision-making; opinions differ on the necessity of considering qualitative aspects and whether evaluations should be based on a sole set of metrics.

Globally, there are many frameworks in development that aim to enable objective evaluations of eligibility, from both public and private entities (see Box 1). These are being discussed from various angles: how quantitatively and precisely definitions should be set; where standards or guidelines are created, whether enforcement should be regulation-based or left to the market; and how these standards should be used, for example what should be criteria for issuance and what should be criteria for listing.

Box 1: Notable Initiatives on Eligibility for ESG Bond Labels

The European Union (EU) has set out standards that bonds issued within the EU must meet in order to use the label "EU Green Bond", which include that the funds raised must be allocated to projects aligned with the EU taxonomy, that the bond does no significant harm to environmental objectives other than those that the funds are used for, and that it is reviewed both pre- and post-issuance by an external reviewer which is registered with the European Securities Markets Authority (ESMA). The EU taxonomy sets detailed quantitative and qualitative standards for each industry on what can be considered to make a "substantial contribution" to objectives such as climate change mitigation and the protection of biodiversity.

In November 2021, the International Platform on Sustainable Finance (IPSF) published a "Common Ground Taxonomy Instruction Report" which is part of efforts

Green Bond Guidelines from ICMA, CBI, and the Japanese MoE, but also those for specific sectors such as the IEA's estimates regarding energy and emissions, the Comprehensive Assessment System for Built Environment Efficiency (CASBEE), and the Building-housing Energy-efficiency Labeling System (BELS).

to compare and identify common aspects of the EU and Chinese taxonomies and standardize parts that overlap.

The London Stock Exchange (LSE) has set criteria for ESG bonds listing on its market, including adherence to international standards such as the ICMA Green Bond Principles or the EU Green Bond Standard, and regarding that adherence, an external review from a reviewer that meets conditions such as for independence and specialism. For transition bonds, the criteria include annual reporting on progress towards net zero by 2050. LSE has gained a level of acceptance by including high-level standards from private organizations as well as public ones.

The Monetary Authority of Singapore (MAS) has published a draft taxonomy, billing it as a "common language" for financial institutions. Investment targets would be classified into "green", "red", and "yellow" depending on, respectively, whether they are aligned with, inconsistent with, or are in transition towards four environmental objectives (climate change mitigation, climate change adaptation, protection of biodiversity, and promotion of resource resilience).

Additionally, on the road to net zero by 2050, while "transition" is crucial to ensure continued investment in high-emission industries, there are many issues being debated in this area including how to set targets and manage progress during the transition, as well as how to consider consistency between worldwide emissions targets and those for each industry or company.

In Japan, last May the Ministry of Economy, Trade and Industry (METI), MoE, and FSA published their "Basic Guidelines on Climate Transition Finance" which aim to help evaluate companies' transition strategies in view of ESG label eligibility. Since October last year, METI has also been in the process of formulating sector-specific "roadmaps" towards decarbonization (roadmaps for seven high-emissions sectors are expected to be published by the end of FY2021).

Internationally, last year's COP 26 spurred the acceleration of discussions on how transition should look; for example, the G20 is planning to complete work on the subject along with appropriate international institutions and others by 2023, and a "coalition of the willing" of

mostly private financial institutions is also moving forward with their own research (see Box 2).

At present, issuance of transition bonds is barely off the starting line, but debate is expected to move forward, taking specific practical issues into account, both within and outside of Japan.

Box 2: Notable Global Initiatives on Transition Finance

As part of the "G20 Sustainable Finance Roadmap", which was approved by the G20 Finance Ministers and Central Bank Governors at their meeting in October last year, the G20 Sustainable Finance Working Group is aiming to collaborate with several international organizations to find ways of integrating transition finance considerations into sustainable finance alignment approaches by 2023.

The Glasgow Financial Alliance for Net Zero (GFANZ), which is a coalition of private financial institutions, and the Net Zero Banking Alliance (NZBA) which is one of its members, among others, are researching topics such as the criteria needed for sectoral pathways towards net zero and how financial institutions should engage with transition in the real economy.

The creation of international rules on transition finance was proposed in June 2019 at the Annual General Meeting of the International Capital Markets Association (ICMA), which creates and operates its own Green Bond Principles and other guidance. A Climate Transition Finance Working Group was established within ICMA in December that year. In December 2020, it published a Climate Transition Finance Handbook.

The Climate Bonds Initiative (CBI) published a White Paper on financing credible transitions in September last year, which stresses the importance of entities setting Paris Agreement-aligned transition goals and quantitative KPIs in line with these, as well as transition strategies.

Section II: Contents of the Working Group's Deliberations

1. Creation of an Information Platform

As stated in Section 1, in order to make it easier for market players to access the information they need and in line with the recommendations of the FSA's Expert Panel, it will be necessary to work towards the creation, operation, and enhancement of a platform that will become a "hub" for the Japanese ESG market.

The most important aspect of this will be that the platform is as integrated an information source as possible, with information on all sustainable finance-related financial products that are issued in Japan available in one place. As the first stage, the platform will gather information on mainly issuance, reviews, and issuer strategy that is currently published on the websites of, among others, issuers, review providers, and securities companies. This will apply to publicly offered ESG bonds including green bonds, transition bonds, social bonds, sustainability bonds, and sustainability-linked bonds. As well as reducing information gathering costs and ensuring transparency, this can also be expected to assist with suitable and prompt decision-making.

As well as information disclosure from each issuer, there are already various other information sources being developed, such as the MoE's Green Finance Portal and the Japan Securities Dealers Association's list of SDG bonds. It would be beneficial for the platform to utilize these and bring them together, gathering information points that all market players find useful from the full width of the ESG investment field.

In particular, it was pointed out during deliberations that ESG investment requires information on an issuer's ESG-related characteristics that would not be needed for traditional investment, such as management strategy and ESG activities. For example, it would be useful to create a base structure that would enable users to see the specific details of issuing "frameworks"⁶, and identify the characteristics which differentiate them from other similar examples.

Similarly, there were opinions that post-issuance information ("reporting"), such as how

⁶ A generic term meaning information that is published when an ESG or other bond is issued, including the purpose of fundraising and use of proceeds, method of selecting investment targets, management method of raised funds, and disclosure after issuance.

proceeds were actually allocated or how the issuing organization's strategy has been revised, is also important from the perspective of access to useful information about an issuing organization's activities. Particularly for investors who place importance on the "impact" that a bond has, it is important to be able to clearly track positive environmental impacts, for example.

As ESG investment and sustainable finance require specialist knowledge, including eligibility standards for "green" or "transition" labels, another crucial aspect is to make sure that the platform expands the pool of market participants by providing investors, issuers, finance experts, and others who have an interest with information and resources that cover at least the basics of knowledge on the topic. In the case of transition finance, for example, while there have been some transition-labelled bonds and loans issued and traded recently, its connection to and position within sustainable finance is not thought to be fully understood outside of a narrow group, so these kinds of resources are important for spreading understanding.

On the topic of providing information about ESG investment and sustainable finance, the JPX ESG Knowledge Hub currently aims to support corporate ESG disclosure by providing information such as points to note for listed companies when disclosing, examples of disclosure, and introductions to ESG review providers. We hope that by expanding this aim further than corporate ESG disclosure and linking with the platform where appropriate, practical knowledge can be made widely available within the financial sector.

Furthermore, by inviting investors and other market participants to be involved in creating these educational resources, the platform could be utilized not just for information provision but as a base for deepening mutual understanding between participants. Through various opportunities like this, ongoing enhancements can be made in providing the information platform users see as necessary.

Taking the above into account, to enable healthy development of the ESG investment market, the kinds of information that we consider would be beneficial for all market players at the present time are shown below.

Fundamentals	:	Pricing date ⁷ (date that terms are decided), issuer name, bond name, issuance amount, currency unit, interest rate, redemption date, maturity date, lead underwriter, form of placement (public/private), credit rating, ESG category
Issuer information	:	Issuer's issuing framework/ESG information/strategy, etc. (link to issuer website)
Reporting	:	Post-issuance reporting such as actual use of proceeds and impact (link to issuer website)
Review information	:	Name of provider that carried out the external review, guidelines that they used to confirm eligibility, other review information (link to review report)
Other content	:	Information and educational content to contribute to widening the reach of ESG among finance experts, etc., as well as examples of disclosure from listed companies and introductions to ESG review providers.

These types of information have been chosen for consideration with publicly offered bonds in mind, but it would be beneficial, in line with the above thinking, to widen the range of products covered as appropriate when the relevant information is ascertained to be ready for gathering and inclusion on the platform. This could include privately placed bonds as well as loans and other financial products outside fixed income.

For publicly offered ESG bonds, though, apart from the above information, it could also improve convenience to have, for example, a unique code by which investors could identify each bond, and sector information to enable easy comparison of similar issues.

There was discussion within the Working Group about deciding on factors that would enable straightforward indications of ESG activities at each issuer, such as planned CO2 emissions reductions, and including this information on the platform. While it was suggested that this

⁷ 起債日 (*kisaibi*) in Japanese.

could provide clear information to non-specialist users, others gave the opinion that these types of simplified comparisons can be misleading when evaluating a company's actual activities.

With this in mind, at the time of launch, the platform will at first utilize information disclosed by issuers, making this accessible from one place through mainly links. The next priority will need to be identifying the specific types of information and data points from issuing organizations that are important to market players and considering how to include these on the platform in an easy-to-use way. It will be important to continually improve methods for gathering and publishing ESG data in a timely manner, so discussion of the main future issues will need to be carried out simultaneously with preparations for the launch.

2. Ensuring Eligibility for ESG Bond Labels

As mentioned in Section 1, for products such as green bonds or other ESG bonds, it is common practice for a specialist review provider to enact and publish the results of an external review on whether the use of proceeds and other aspects of the bond make it eligible for an ESG label, based on domestic or international guidelines and recent examples from the market. Given this practice, it will be important for the platform to include information about this kind of eligibility.

As previously mentioned, there are many initiatives under way inside and outside of Japan aiming to create guidelines for ESG label eligibility and improve the quality of reviews. Whether a bond can be called eligible within the specialist domains of "green" or "transition" is a fundamentally important piece of information to have when issuing or investing in said bond.

By providing information on what kind of standards or policies were specifically used to review each financial product, along with explanatory material on the details and characteristics of the standards used, the platform could contribute not just to decision-making on issuance or investment, but to improving the comparability of similar examples, leading to more reliable eligibility through better market functions.

While many public and private sector discussions and initiatives on eligibility are progressing both inside and outside of Japan, for the time being, judgement on eligibility for the

purposes of issuance and investment on the ground is most commonly being left to the market players themselves, such as each individual investor, issuer, and review provider.

It was suggested within the Working Group that although final decisions on investment and issuance should of course be made by each economic entity, if there were a framework for sharing of specific preferred standards for "green" or "transition" between market participants and regulators, and objectively confirming/certifying that products are based on these standards, this would increase the transparency and objectivity of external reviews, likely enabling investors and issuers to participate in the market with more peace of mind.

On the other hand, several Working Group members said that looking at market trends on the ground, the ESG bond market in Japan and globally is still at a development stage, and that it would be better to build a picture of the market as the numbers of issues build up, to see what kind of examples arise of greenwashing accusations, for instance.

From the same perspective, what is important at the moment is to gradually form a consensus through the whole market while experience of actual issuance and trading builds up. A certification framework where regulators, market participants and other players decide on specific standards or guidance would also be better created over a period of time along with the accumulation of real examples and experience.

For these reasons, at first it will be important for the platform to provide a base for market players to work from in their decisions by including review reports which make clear what guidelines the issuer or review provider referred to, how they judged eligibility, and detailed reasons for this.

It is expected that by making information available all in one place by comprehensively listing issues of ESG bonds and similar products along with their reviews and other information, the platform will improve comparability and transparency of each bond's characteristics, enabling comparisons with similar examples, leading to more reliable eligibility through improved market functions.

On another note, it was also pointed out that the specialist providers who carry out ESG reviews will have a large and growing role in eligibility in the future, so it is also important to work towards ensuring transparency in relation to the providers themselves.

3. Platform Operation and Information Gathering

To ensure that this information platform is successfully built and smoothly operated, it is vital to think about operations from the perspective of longevity.

For this purpose, the central goal more than anything else will be encouraging market players to use the platform by increasing usability through further one-stop information provision, developing various functions, and improving convenience. Along with this, it will be important to work towards further efficiency and longevity through using the appropriate information gathering mechanisms and management systems.

For instance, at the moment information on each separate ESG bond issue mainly needs to be searched for and gathered post-issuance through the internet or securities data terminals, but with the market expected to grow, it would be beneficial to have a mechanism which employs the co-operation of related parties to efficiently gather information on each issue in one place, taking into account current practices.

In the case of publicly offered ESG bonds, for example, a possible information flow could involve issuers sending to the platform information that they disclose at the time of offering, or securities companies acting as lead underwriters sending public information that they maintain. By utilizing information transmitted by those conducting the issuance, as well as enabling timely and comprehensive information gathering for market players, this would also contribute to lowering the platform's operational costs.

Additionally, although the platform's comprehensiveness is vital to encouraging continued usage, rather than imposing an obligation to provide information to the platform when a bond is issued, it would be better to create appropriate incentives for issuers, securities companies, and other related parties through improved convenience for all market players in order to build up the platform from where it is possible to do so, with the understanding of everyone involved, while operating it in a way that enables agile growth.

Within the Working Group, it was suggested that a certain level of cost sharing or obligation could be put in place, for example by establishing a Council consisting of the platform operator and market players. Once the platform is in operation, discussion will continue on what revisions to the set-up are needed and what kind of cost-sharing structure will be appropriate to ensure stability of operations, which will be needed to make improvements

such as expanding functionality.

Section III: Plan of Action

Based on the above, the following actions can be considered appropriate.

Creation and improvement of the information platform

The information platform should be at first built to cover publicly offered ESG bonds, including information on fundamentals such as issuance dates, names of issuers, and ESG category, issuer information such as company strategy and ESG activities, reporting such as use of proceeds and impact, and review information such as review reports from external review providers. In tandem with this, the provision and enhancement of various resources to contribute to facilitating understanding among industry practitioners and expanding the reach of ESG within the financial industry is also recommended.

JPX should begin work on building the platform with a view to launching it by the middle of this year, including discussion on ways to gather the relevant information, while listening to the opinions of market players. After the launch, while working to spread knowledge of the platform as widely as possible to encourage its use among market players, debate and investigation will continue at this Working Group as to whether, for example, the platform is providing information to users in an easy-to-use way and whether it is adequately meeting its objectives. Necessary improvements should be made based on this. In connection with these improvements, from the perspective of maintaining stable operations, there will also be discussion on revisions to the operational set-up such as the necessity of a Council, and with regards to the flow of information gathering, the Working Group will confirm how this is functioning when appropriate and look into any further improvements that are considered possible.

Work towards ensuring ESG bond eligibility

In terms of working to ensure the eligibility of bonds or other products to be given "green", "transition", and other ESG labels, a staged approach should be taken. At first, while the market is still developing, the aim should be to improve quality through market consensus by gathering and providing issuance information on the platform along with information on reviews – i.e., how judgement on eligibility was made and using what guidelines – while encouraging issuance of ESG bonds from many different organizations.

In tandem with this, as global debate on standards and guidelines is expected to heat up in the future, there should be continued discussion, in co-operation with the FSA's Expert Panel and taking this global debate into account along with market trends, on whether it would be possible to create a framework for objective certification of the eligibility of each bond or other product, for example through market participants and regulators sharing with each other their preferred domestic or global standards for "green", "transition", and other similar labels.

Expansion of coverage and securing data

Looking forward, the coverage of the platform could be gradually expanded, after debate on the various issues, from domestic publicly offered bonds to privately placed ESG bonds and those issued overseas, ESG-linked loans and investment trusts, and other financial products. If it were possible to create a one-stop platform for information on a wide range of ESG-related financial products, this could lead to more detailed information gathering and provision on the activities of issuing organizations.

It can also be envisaged that if information on positive environmental impacts were provided in a way that concretely showed environmental impacts or other positive social effects, this would enhance impact investment strategies among investors who value these issues, leading to even further demand for this information. It will be important to make improvements that are focused on changes taking place across the market.

With movements towards decarbonization advancing across the globe, demand from shareholders and other stakeholders for corporate ESG information and data is shooting upward, along with demand for better quality and more sophisticated disclosure. Using the platform or other facilities to gather this information and provide it in an easily understandable way will be an important topic for discussion in the future, so it will be vital to consult related parties on this moving forward, along with how to ensure the quality of the data. Through these actions, it could be possible to create a virtuous cycle whereby the gathering and use of ESG information and data by market players expands, leading to more investment in companies that are active on ESG.

The future of this Working Group

This Working Group will hold ongoing discussions on the progress of information gathering, how to work towards ensuring eligibility, and other topics so that the platform can drive robust market development and contribute to the development of Japan's economy as a whole by becoming a hub for the sustainable finance market, through its provision of ESG-related information and data on one platform.

As the sustainable finance market changes so rapidly, in order to keep track of the situation and discuss improvements on an ongoing basis, the Working Group will receive regular update reports, for example every three or six months.

It is important that we continue to work to deepen mutual dialogue on ESG between market players including issuers, investors, and review providers, so that ESG factors are appropriately taken into account at every stage of capital flow – fundraising, fund use, and investment – leading to a more sustainable market and economic growth.