

Asian Capital Markets Roundtable 2023: Capital Market Development for Sustainable and Inclusive Growth in Asia

Sustainability Issues in Japan and Prospects for Sustainable Finance

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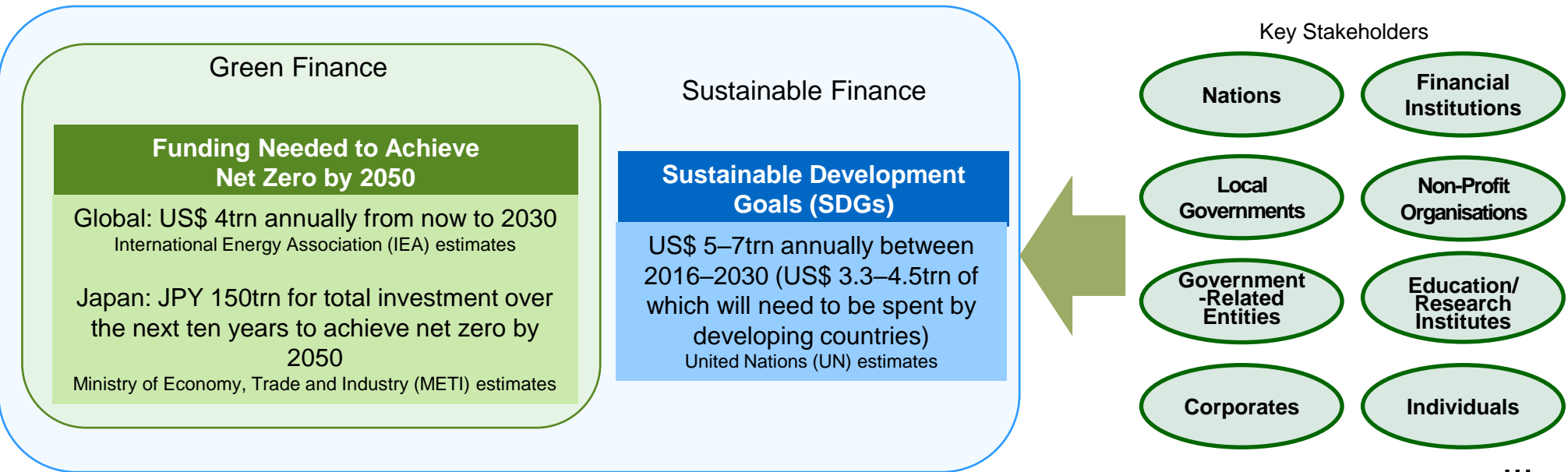
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Finance Plays an Important Role in Realising Sustainable Society

- In order to address environmental, social issues, a large amount of investment through financial markets is needed, together with the cooperation of various stakeholders
- Finance toward the realisation of a sustainable society (sustainable finance) and Environment, Social and Governance (ESG) investment plays an important role in recent years

Figure 1: Green and Sustainable Finance and Key Stakeholders (Image)



Sustainable Finance Related Developments

- Full-scale development of sustainable finance started from mid-2010

Figure 2: Major Trends in Sustainable Finance

Time	Details
1920s	Socially Responsible Investment (SRI) begins in the United States and the United Kingdom
April 2006	Principle of Responsible Investment (PRI) advocated by United Nations (UN) Secretary-General Kofi Anan (at that time)
January 2014	Green Bond Principles (GBP) announced by several financial institutions
February 2014	Financial Services Agency (FSA) releases Stewardship Code
August 2014	Ministry of Economy, Trade and Industry (METI) releases "Ito Review"
June 2015	Tokyo Stock Exchange (TSE) establishes Corporate Governance Code
September 2015	The Government Pension Investment Fund (GPIF) becomes a PRI signatory
September 2015	Adoption of Sustainable Development Goals (SDGs) at United Nations Summit
December 2015	Paris Agreement, a new international legal framework on climate change measures, is signed by participants at the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (COP 21)
March 2017	Japan's Ministry of the Environment (MOE) announces "Green Bond Guidelines, 2017"
May 2017	FSA releases Stewardship Code (Revised Edition)
June 2017	International Capital Markets Association (ICMA) releases Social Bond Principle (SBP), and Sustainability Bond Guidelines (SBG)
June 2017	Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) releases final report with its recommendations for climate-related financial disclosures
November 2017	Japan Business Federation (Keidanren) revises the Charter of Corporate Behavior with a focus on delivering the SDGs through the realization of Society 5.0
June 2018	Tokyo Stock Exchange releases Revised Corporate Governance Code
March 2020	MOE announces "Green Bond Guidelines, 2020" and "Green Loan and Sustainability-linked Loan Guidelines, 2020"
March 2020	FSA finalizes Stewardship Code (Second Revised Edition)
June 2020	ICMA announces Sustainability-Linked Bond Principles (SLBP)
October 2020	Prime Minister Yoshihide Suga (at that time) announces a policy to achieve zero greenhouse gas emission by 2050
December 2020	ICMA announces Climate Transition Finance Handbook
May 2021	FSA, METI and MOE announce "Basic Guidelines on Climate Transition Finance"
June 2021	Tokyo Stock Exchange releases Revised Corporate Governance Code
October 2021	FSA announces "Social Bond Guidelines"
July 2022	MOE announces "Green Bond Guidelines, 2022" and "Green Loan and Sustainability-linked Loan Guidelines, 2022"

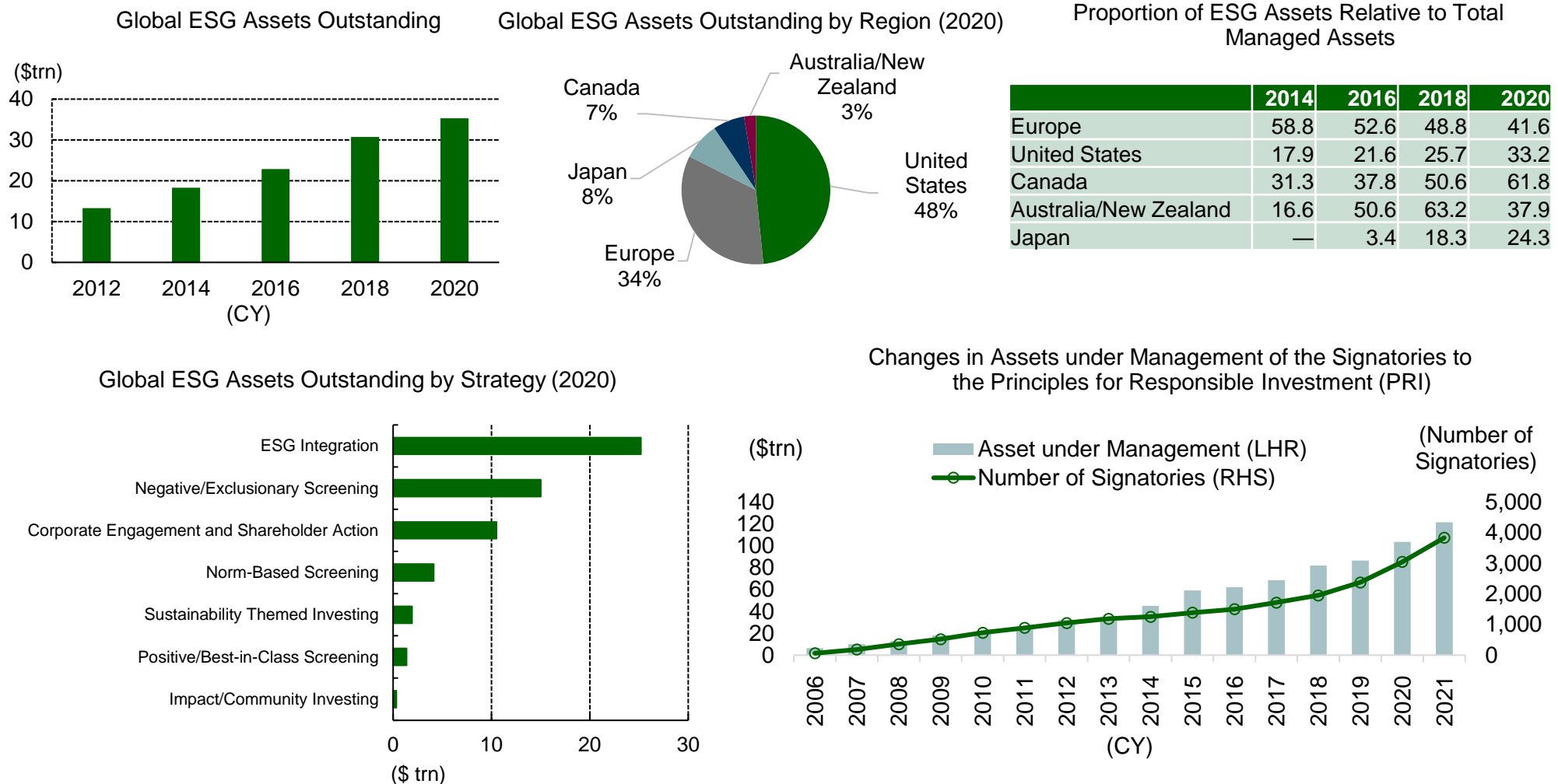
Note: Bolded text indicates initiatives related to Japan.

Source: Nomura Institute of Capital Markets Research

Growing Global ESG Investment Volume

- The presence of ESG investment in financial markets has increased since the late 2010s

Figure 3: Global ESG Investment Status

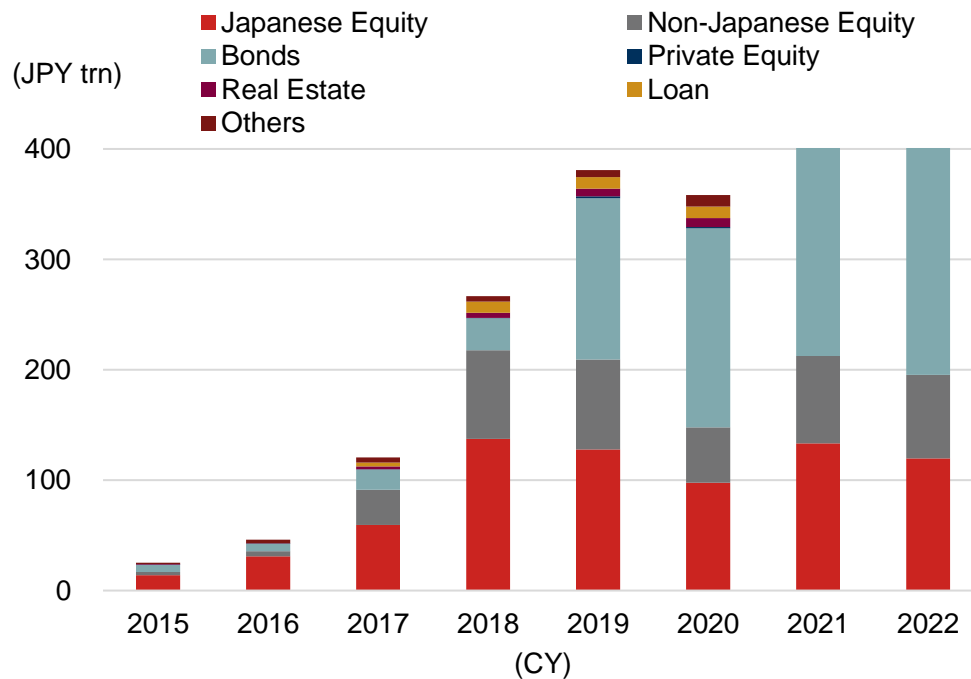


ESG Investment Outstanding in Japan is Expanding

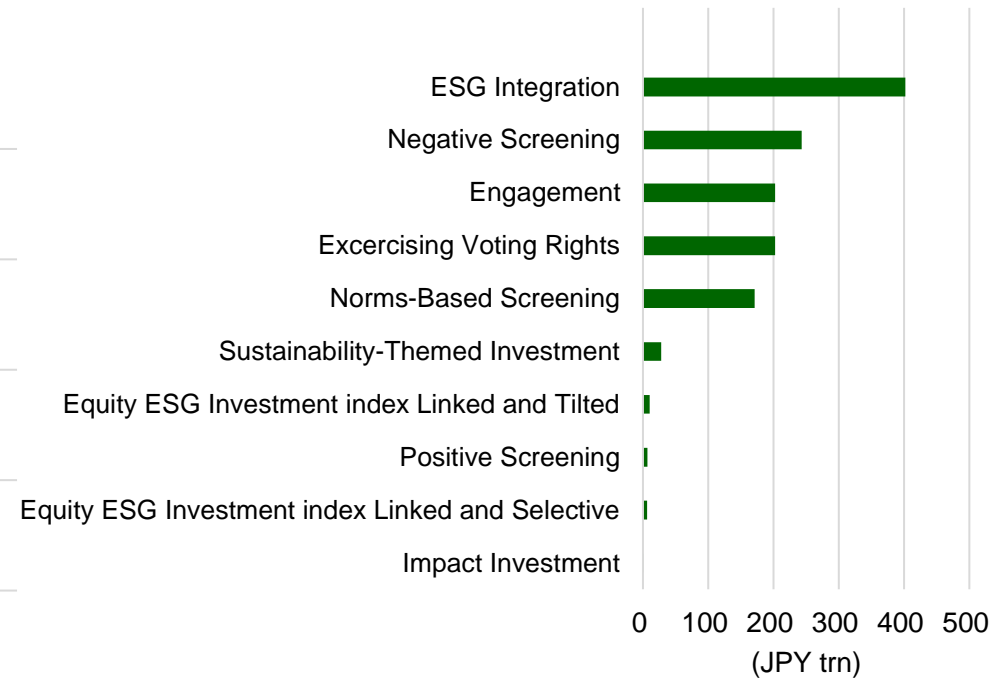
- ESG investment outstanding in Japan reached about JPY 494trn at the end of March 2022
- ESG investment outstanding by individuals increased to around JPY0.4trn at the end of June 2022

Figure 4: ESG Investment in Japan

Outstanding Balance of ESG Investment by Asset Class



Outstanding Balance by Investment Management Method (2022)



Note: The figures are as at the end of March. The amount entrusted by the investment managers and the amount entrusted by owners are partially duplicated.
 Source: Japan Sustainable Investment Forum, *Sustainable Investment Survey*, Each Year; Nomura Institute of Capital Markets Research

Continuous Development of Sustainable Finance Related Products

- Financial products continue to be developed to meet the need to solve environmental and social issues

Figure 5: Key Sustainable Finance Related Debt Instruments

Green Bonds

Bonds issued to finance projects aimed at contributing to solve environmental problems

Social Bonds

Bonds issued to finance projects aimed at contributing to solve social problems

Sustainability Bonds

Bonds issued to finance projects aimed at contributing to solve environmental and social problems

Green Loans

Loans utilised to finance projects aimed at contributing to solve environmental problems

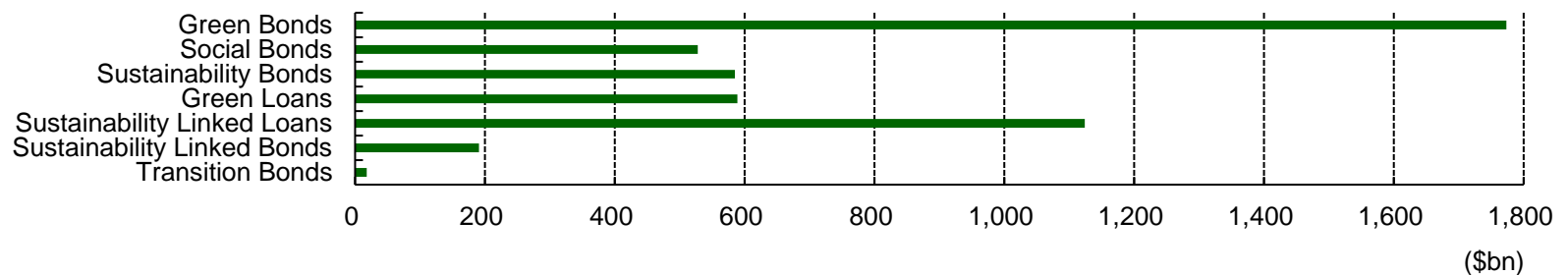
Sustainability Link Loans/Bonds

Loans or bonds that incorporate incentives for borrowers to produce better sustainability performance. The incentives are agreed by borrowers and lenders before procurement

Transition Bonds/Loans

Bonds or loans that do not meet the criteria for green bonds/loans, but aimed at contributing to transition to a low/zero carbon society

Major Sustainable Finance Related Debt Instruments Outstanding



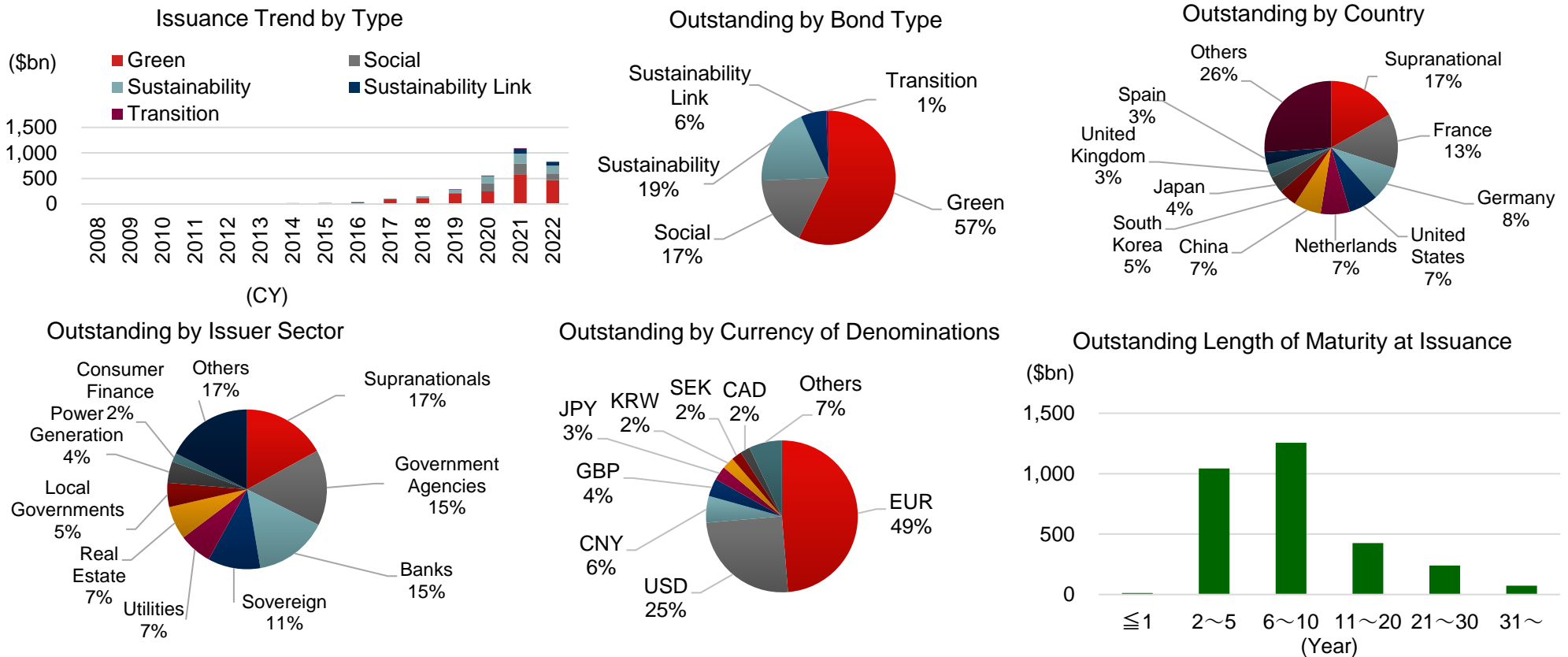
Note: Issuance and origination amounts (as at the end of December 2022) are based on Bloomberg's criteria for green bonds, social bonds, sustainability bonds, sustainability-linked bonds, transition bonds, green loans and sustainability-linked loans. Green bonds exclude U.S. municipal bonds and securitized products. USD-equivalent base.

Source: Bloomberg; Nomura Institute of Capital Markets Research

Overview of the Sustainable Finance Related Bond Markets

- In the sustainable finance related bond markets, issuance has been growing since mid-2010s mainly by green bonds. Social bonds have also been in the spotlight, spurred by the Covid-19 problems

Figure 6: Global Issuance of Sustainable Finance Related Bonds

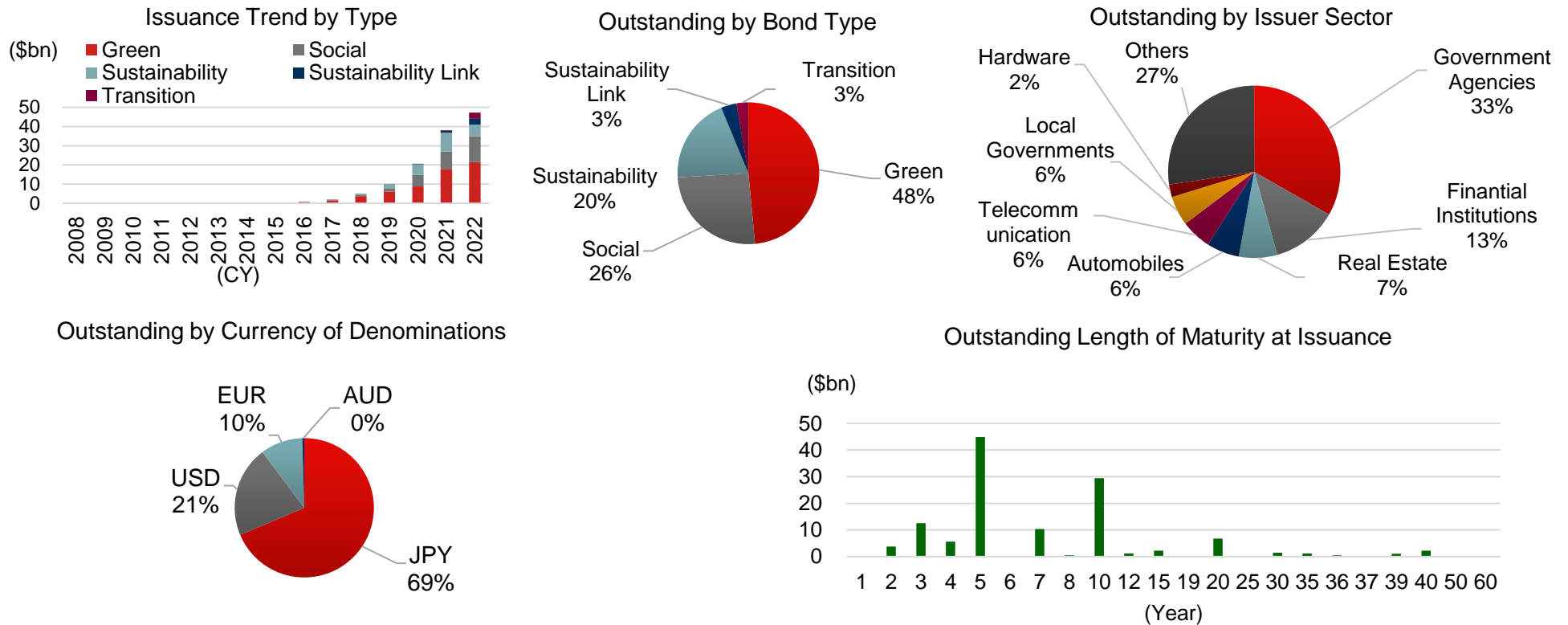


Note: Issuance amount (as of the end of December 2022) is based on green bonds, social bonds, sustainability bonds, sustainability-linked bonds and transition bonds defined by Bloomberg. Value is on a US dollar basis. Data excludes municipal bonds in the United States and securitization. The outstanding balance at the end of December 2022 was approximately \$3.1trn.
 Source: Bloomberg, Nomura Institute of Capital Markets Research

Overview of the SDGs Bond Market by Japanese Issuers

- In Japan, issuance and issuers of sustainable finance related bonds have increased since 2017, largely underpinned by the Ministry of Environment's various supporting measures for green bonds

Figure 7: Issuance of Sustainable Finance Related Bonds by Japanese Issuers



Note: Issuance amount (as of the end of December 2022) is based on green bonds, social bonds, sustainability bonds, sustainability-linked bonds and transition bonds defined by Bloomberg. Value is on a US dollar basis. Data excludes securitization. The outstanding balance at the end of December 2022 was approximately \$124bn.
 Source: Bloomberg, Nomura Institute of Capital Markets Research

Japan's Progress towards SDGs

- The status of Japan's progress towards Sustainable Development Goals (SDGs) highlights the need for further efforts to respond to environmental, gender, inequality and responsible consumption and production-related targets
- In order to address above issues, financial markets have been effective source to procure necessary resources. This will likely continue for mid- to long-term future

Figure 8: The Status of Japan's Progress towards SDGs

Targets	Status	Trends	Targets	Status	Trends
1 No poverty	○	↑	10 Reduce inequalities	△	▪
2 Zero hunger	△	↗	11 Sustainable cities and communities	○	↗
3 Good health and well-being	○	↑	12 Responsible consumption and production	▲	↗
4 Quality education	◎	↑	13 Climate action	▲	↗
5 Gender equality	▲	↗	14 Life below water	▲	→
6 Clean water and sanitation	○	↗	15 Life on land	▲	→
7 Affordable and clean energy	△	↗	16 Peace, justice and strong institutions	◎	↑
8 Decent work and economic growth	○	↑	17 Partnerships for the goals	▲	↗
9 Industry, Innovation and Infrastructure	◎	↑			

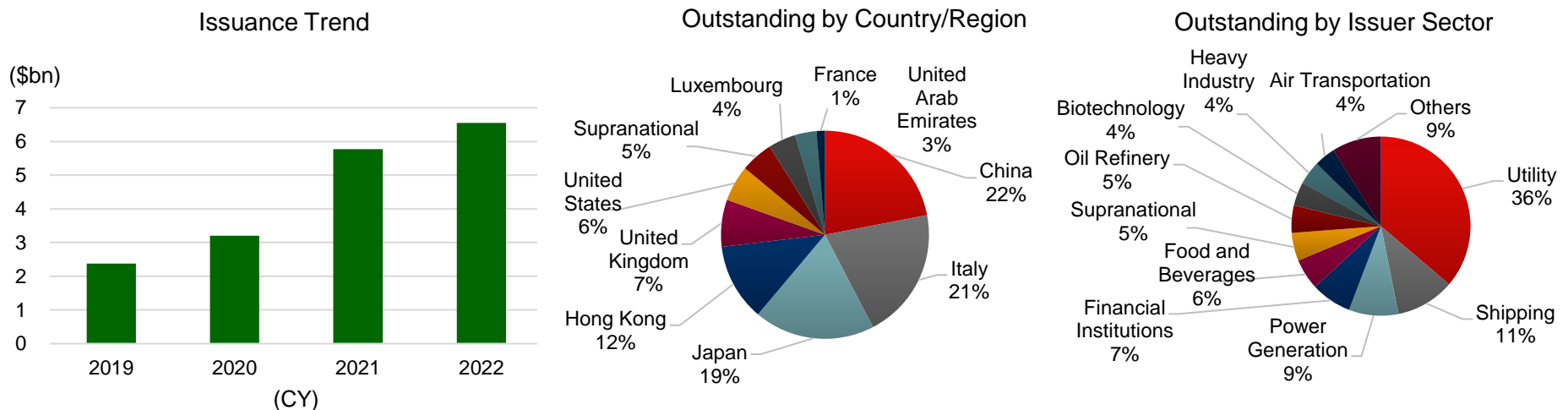
Note: ◎=SDGs achieved, ○=Challenges remain, △=Significant challenges, ▲=Major challenges, ↑=On track or maintaining SDG achievement, ↗=Moderately improving, →=Stagnating, ↓=Decreasing, ▪=Information unavailable.

Source: Sachs, J., Schmidt-Traub, G., Kroll, C., Lafortune, G., Fuller, G., Woelm, F, *Sustainable Development Report 2022*, Cambridge: Cambridge University Press, 2022; Nomura Institute of Capital Markets Research

Addressing Major Issues 1: Environment

- The transition to a decarbonised economy, even with the Covid-19 problem and the situation in Ukraine remains important. In line with other countries, Japan has been committing to achieve a net-zero economy
- For corporates, building an optimal business portfolio based on the global trend toward decarbonisation is vital to maintaining sustainable management
- Transition finance (transition bonds/loans) to realise a decarbonised economy has been expanding in recent years
- In terms of the environment, issues such as the circular economy, carbon pricing, biodiversity etc. are also attracting attention

Figure 9: Global Issuance of Transition Bonds



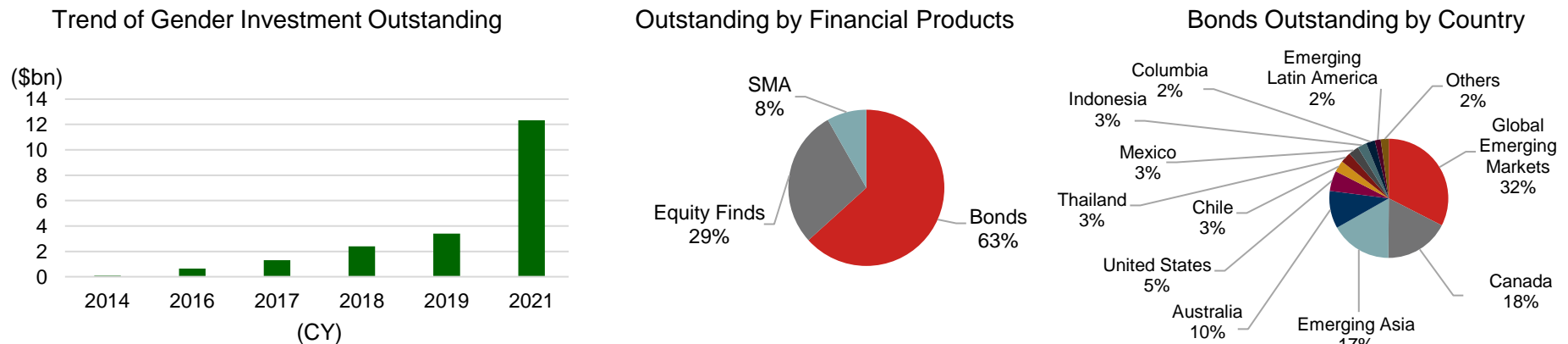
Note: Issuance amount (as of the end of December 2022) is based on transition bonds defined by Bloomberg. Value is on a US dollar basis. The outstanding balance at the end of December 2022 was approximately \$18bn (global) and \$3bn (Japan), respectively.

Source: Bloomberg, Nomura Institute of Capital Markets Research

Addressing Major Issues 2: Gender Equality

- Japanese financial markets have made progress on promoting gender equality in recent years
 - e.g. (1) the Ministry of Economy, Trade and Industry and the Tokyo Stock Exchange have selected publicly traded companies with outstanding performance by women as Nadeshiko Index (from FY2012), (2) Development and revision of the Corporate Governance Code to promote gender diversity (June 2015, June 2018 and June 2021) etc.
- However, the Gender Gap Index published by the World Economic Forum (WEF) in July 2022, ranked Japan 116th, one of the lowest in the G7 nations
- In light of Japan’s demographic and economic situation, it is essential to further promote gender equality
- Globally, gender-related finance has developed since around the 2010s, including gender bonds, equity funds, venture capital. In Japan, further diversification of gender-related finance is needed. To date, there are several gender related funds. However, no gender bond has yet been issued to address Japan’s problem

Figure 10: Status of Gender Investment Outstanding in the Public Markets



Addressing Major Issues 3: Reduce Inequality

- In the case of Japan, the income balance for the entire population is comparable with the G7 nations, based on the level of Gini coefficient and Parma ratio. However, poverty rates are relatively high amongst elderly, single-parent households
- To date, national and local governments play an important role in reducing inequality. That said, given the severe fiscal situation, it will be more important to reduce inequalities by private sector resources including finance
- Financial approaches that contribute to the reduction of inequalities include (1) securing private capital through tax granting measures, (2) public-private partnerships (including social impact bonds), and (3) providing financial support to corporates (including social bonds, sustainability bonds)

Figure 11: Example of Financial Instruments that Contribute to SDGs 10

Issuer (Sector)	Bond Type	Use of Proceeds Contributing to SDGs 10
ANA Holdings (Air Transportation)	Social	<ul style="list-style-type: none"> • Universal response to employees <ul style="list-style-type: none"> ➢ Used to fund part of renovation of facilities and equipment of domestic business operators ➢ Installation of a parking lot for wheelchair users, introduction of multifunction toilets, and ensuring the width of doors and aisles
Okinawa Development Finance Corporation (Government Agency)	Sustainability	<ul style="list-style-type: none"> • Okinawa Single Parent Support and Employment Environment Improvement Loan Interest Rate Special

Addressing Major Issues 4: Responsible Production and Consumption

- With the growth of the world population and the emergence of geopolitical risks, resource, energy and food problems have become more apparent. A form of consumption that uses fewer resources while getting more at better quality is becoming more important
- SDGs 12 aims to ensure responsible production and consumption patterns with the cooperation of all stakeholders
 - SDGs 12 include sustainable management and efficient use of natural resources, reduction of food losses, reduction of chemical and other releases, efforts are required to reduce waste, reduce waste, and ensure sustainable public procurement.
- In recent years, financial products have begun to proliferate to address food losses and promote a shift to a circular economy. However, further diversification of financial products is needed to achieve SDGs12

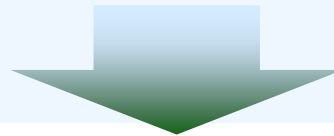
Figure 12: Example of Financial Instruments that Contribute to SDGs 12

Issuer (Sector)	Bond Type	Description
World Bank (International Bank for Reconstruction and Development <IBRD>, Supranational)	Sustainable Development	The funds are used to address food loss and food waste issues (e.g., grain storage and access to information, improvement of agricultural operational capacity for small farmers, etc.)
Zensho (restaurant, Japan)	Sustainability	The funds are used for environmental protection, reduction of food loss (introduction of straight lanes to <i>Hama-zushi</i> restaurants), and support for the social development of producers and local society
Intesa Sanpaolo (financial institution, Italy)	Circular Economy	Eligible projects/loans are those that (1) solutions that extend the product-life or cycles of use of goods and/or materials, (2) production processes fuelled by and/or products made of renewable or recycled resources, (3) products and/or services that significantly increase effectiveness and efficiency of the resources consumption, within the company or along its supply chain, (4) design and/or manufacture products that can be fully recycled or composted within an efficient framework of collection, separation and recycling after use, (5) innovative technologies to enable circular business models

Conclusion

Sustainability Issues in Japan and Prospects for Sustainable Finance

- ◆ In order to address environmental, social issues, a large amount of investment through financial markets is needed, together with the cooperation of various stakeholders
- ◆ Full-scale development of sustainable finance started from mid-2010 globally including Japan
- ◆ The status of Japan's progress towards SDGs highlights the need for further efforts to respond to environmental, gender, inequality and responsible consumption and production related targets
- ◆ In order to address above issues, financial markets have been effective source to procure necessary resources. This will likely continue for mid- to long-term future



Toward the Realisation of a Sustainable Society

- ◆ It is vital for all stakeholders, including governments, companies, investors, financial institutions, and citizens, to regard sustainability issues as their own issues and to continue to address them in order to realize a sustainable society
- ◆ It is also very important that countries to work together to solve global environmental and social issues

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Even the things we cannot do alone can be achieved
when we work together towards a common goal.

By combining our expertise and that of our partners,
we aim to accelerate the drive towards a sustainable world and
help create an affluent society for all.