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**Public Consultation
on the Market Functioning Survey
concerning Climate Change**

December 2021

**Financial Markets Department
Bank of Japan**

I. Introduction

Climate change is a global challenge that could have a broad impact on our society and economic activity. Recently, various domestic and foreign stakeholders including governments, central banks, corporates, and financial institutions have become even more active in their efforts to tackle climate change.

Against this backdrop, financial markets are expected to play a greater role in terms of financial intermediation related to climate change issues. For the markets to function well, investors need to make investment decisions while taking into account risks and opportunities arising from climate change (climate-related risks and opportunities) by appropriately identifying them. Such investments are expected to help incorporate climate-related risks and opportunities into the prices of financial instruments, and thereby contribute to the smooth supply of financing in projects to tackle climate change. Also, for financial institutions, an appropriate reflection of climate-related risks and opportunities in the prices of financial instruments is a presumption for managing climate-related financial risks in their portfolios.

While many domestic and foreign entities such as academia, financial authorities including central banks, and international organizations have recently started to make efforts to explore the degree to which climate-related risks and opportunities are reflected in the prices of financial instruments, further research and accumulation of knowledge are necessary on this point. For instance, in the field of empirical data analyses, results have varied partly due to data constraints. Qualitative surveys are also being undertaken, but many of them cover only market participants from the investor side or are conducted on an ad hoc basis. Addressing climate change requires a long-term perspective. Accordingly, it would be useful to continuously observe the degree to which climate-related risks and opportunities are reflected in the prices of financial instruments while collecting views from a broad set of market participants.

Moreover, in order to improve the market functioning related to climate change issues and expand the size of climate finance markets, it is essential to have a good understanding of the challenges that need to be addressed and to respond to them

appropriately. In fact, in recent domestic and international forums, there have been discussions on measures to address various challenges including enhancing information disclosure on climate-related risks and opportunities, understanding the transmission channels of climate-related risks, and improving the transparency of ESG ratings. As each of these measures makes progress and external environment changes, the challenges for financial markets are expected to change. In this regard, continuously collecting and analyzing the views of market participants is also important.

Based on the above recognition, the Financial Markets Department of the Bank of Japan is planning to launch a new survey: a continuous survey that aims to assess the functioning of Japanese financial markets related to climate change and to identify challenges for future developments. The Bank seeks to cover a broad set of market participants in the survey such as issuers, investors, financial institutions, and rating agencies, and share the survey results widely with relevant stakeholders. A continuous, comprehensive survey on market functioning concerning climate change which covers issuers in addition to investors and financial institutions would be a new attempt. The publication of the survey results could also encourage efforts to improve the infrastructure for the further development of financial markets, including data collection and the development of quantitative models to capture climate-related risks and opportunities.

By conducting the new survey, the Financial Markets Department of the Bank will contribute to the development of financial markets concerning climate change.

II. Outline of the survey

(1) Survey topics

The Bank proposes the following survey topics.

1. How climate-related risks and opportunities are reflected in the prices of financial instruments in the stock market and the corporate bond market in Japan and associated challenges
2. The current situation and challenges concerning the climate change-related ESG bond market in Japan
3. The use of climate change-related ESG bonds by issuers and investors in Japan and associated challenges

For details of the survey, please see Attachment.

(2) Frequency of the survey

The survey will be conducted annually.

The Bank plans to conduct the first round of the survey in fiscal 2022, as soon as the necessary preparations have been completed, taking into account the results of the public consultation.

(3) Scope of survey respondents

The Bank seeks to cover a broad set of market participants such as issuers, investors, financial institutions, and rating agencies in Japan.

(4) Method of release

The results of the survey will be released on the Bank of Japan's website.

III. Items subject to public comments

This public consultation is intended to seek comments from a broad set of market participants and experts on (1) the survey topics, (2) the frequency of the survey, and (3) the scope of survey respondents.

Please use the prescribed format to provide your opinions regarding (1) the survey topics (questions and options of answers included in Attachment), (2) the frequency of the survey (the Bank plans to conduct the survey annually, with a view to assessing the functioning of Japanese financial markets and identifying the challenges continuously), and (3) the scope of survey respondents (to make the survey comprehensive, the Bank plans to include issuers and other entities in the scope of respondents in addition to investors and financial institutions in Japan) -- specifically, whether you agree or disagree with the Bank's proposals and why -- and send to the email address specified in B below.

The Bank will consider the comments it receives and finalize the topics, frequency, and the scope of respondents. The final version of the survey will be published on a later date.

Submission guideline

A. Submission deadline

January 31, 2022

B. Submission address

Please send your comments and inquiries to the following address by email.

Coordination and Market Analysis Division, Financial Markets Department, Bank of Japan (post.fmd34@boj.or.jp)

C. Required information

- Name of your entity
- Department/Division
- Your name and position
- Contact information (telephone number and email address)

D. Notes

The Bank plans to publish comments it receives in a way that specific respondents would not be identified. The name of your entity and your name may also be published in the list of respondents separately.

Other personal information submitted including contact address may be used to contact you to clarify and confirm information provided.

(Attachment)

Entity	
Entity type	
Division/Department	
Name	
Contact information	

Market Functioning Survey concerning Climate Change (proposal)**(FY 2022 Survey)**

This survey aims to deepen understanding on the current situation in Japanese financial markets and challenges for enhancing market functioning concerning climate change through continued study. Submitted responses will be aggregated and published as results for all of the respondents and results that are categorized based on entity type. It will not be possible to identify the entities of specific respondents from the results. Your honest responses are therefore greatly appreciated.

1. Market Functioning (All Respondents)**(1) Stock Market**

Question 1

Do you think differences in climate-related risks^{1,2} and opportunities³ by issuer are reflected in stock prices in the Japanese stock market?

- Yes (Reflected)
- Somewhat (Somewhat reflected)
- No (Not reflected)

Question 2

Compared to a year ago, do you think climate-related risks and opportunities by issuer are more appropriately reflected in stock prices in the Japanese stock market?

- Yes
- Somewhat
- No

Question 3

Are there any climate-related risks or opportunities that you think are not appropriately reflected in the stock prices?

(Choose all that apply)

- Climate-related risks (Physical risks¹)
- Climate-related risks (Transition risks²)
- Climate-related opportunities³

Question 4

Which of the following do you think are necessary to more appropriately reflect differences in climate-related risks and opportunities by issuer in stock prices in the Japanese stock market in future?

(Choose up to three answers that are most important to your entity)

- Increasing investors and/or issuers that place a high value on climate-related risks and opportunities
- Bridging data gaps on climate-related data
- Enhancing and/or standardizing information disclosure
- Further developing analysis methodologies for climate-related risks and opportunities
- Improving transparency in ESG evaluation
- Promoting engagement and enhancing dialogues
- Clarifying policy measures for climate change
- Other (please explain:)

(2) Corporate Bond Market

Question 5

Do you think differences in climate-related risks^{1,2} and opportunities³ by issuer are reflected in corporate bond prices in the Japanese corporate bond market?

- Yes (Reflected)
- Somewhat (Somewhat reflected)
- No (Not reflected)

Question 6

Compared to a year ago, do you think climate-related risks and opportunities by issuer are more appropriately reflected in corporate bond prices in the Japanese corporate bond market?

- Yes
- Somewhat
- No

Question 7

Are there any climate-related risks and opportunities that you think are not appropriately reflected in corporate bond prices?

(Choose all that apply)

- Climate-related risks (Physical risks¹)
- Climate-related risks (Transition risks²)
- Climate-related opportunities³

Question 8

Which of the following do you think are necessary to more appropriately reflect differences in climate-related risks and opportunities by issuer in corporate bond prices in the Japanese corporate bond market in future?

(Choose up to three answers that are most important to your entity)

- Increasing investors and/or issuers that place a high value on climate-related risks and opportunities
- Bridging data gaps on climate-related data
- Enhancing and/or standardizing information disclosure
- Further developing analysis methodologies for climate-related risks and opportunities
- Improving transparency in ESG evaluation
- Promoting engagement and enhancing dialogues
- Clarifying policy measures for climate change
- Other (please explain:)

Question 9

Which of the following is the closest to your entity's view/impression about the supply and demand conditions of climate change-related ESG bonds⁴ in Japan?

- Somewhat tight to tight
- More or less appropriate
- Somewhat accommodative to accommodative

Question 10

Which of the following do you think are necessary to increase the size of the climate change-related ESG bond market⁴ in Japan?

(Choose up to three answers that are most important to your entity)

- Increasing efforts and projects to respond to climate change
- Increasing investors and/or issuers that place a high value on climate-related risks and opportunities
- Bridging data gaps on climate-related data
- Enhancing and/or standardizing information disclosure
- Further developing analysis methodologies for climate-related risks and opportunities
- Improving transparency in ESG evaluation
- Promoting engagement and enhancing dialogues
- Clarifying policy measures for climate change
- Other (please explain:)

- Notes:
1. "Climate-related risks (physical risks)" refers to the risks that physical phenomena triggered by climate change, such as large-scale disasters or rising sea levels, will have an economic loss on issuers' businesses (e.g., damage to facilities due to climate disasters, difficulty in continuing with business, and impact on business due to climate change in a longer term such as rising sea levels and rising sea temperatures).
 2. "Climate-related risks (transition risks)" refers to the risks of an economic loss on issuers' businesses due to changes in policy, technology, or consumer preference as we move toward a carbon-neutral society (e.g., changes in policies such as those regarding carbon pricing, technological developments, and delays in changing business models in response to heightened consumer preference for "green" instruments).
 3. "Climate-related opportunities" refers to profit opportunities and growth opportunities brought about by efforts to respond to climate change issues (e.g., resource efficiency and cost savings, adoption of low-emission energy sources, and development of new products and services).
 4. "Climate change-related ESG bonds" refers to green bonds, sustainability bonds, sustainability-linked bonds with performance targets related to efforts on climate change, and transition bonds that comply with corresponding international standards and/or the Japanese government's guidelines.

2. Purpose of Issuance of/Investment in Climate Change-related ESG Bonds (by Entity Type)

(Questions for Issuers)⁵

Question 11

Have you issued climate change-related ESG bonds⁴ in Japan in the past 12 months (fiscal 2021)?

- a. Yes (Issued)
- b. No (Did not issue)

If you chose "a" in Question 11, please answer Question 12-a. If you chose "b," please answer Question 12-b instead.

Question 12-a

Why did you choose to issue climate change-related ESG bonds⁴ in Japan as a means of financing?

(Choose all that apply)

- Climate change response became more important in the entity's business strategy
- Issuing the ESG bonds improves the entity's reputation and/or its ability to give explanations to stakeholders
- Issuing the ESG bonds helps the entity gain new investors and/or diversify the entity's base of investors
- Fund raising by issuing the ESG bonds is more favorable than other means of financing in Japan (e.g., loans)
- Conditions for issuing the ESG bonds are more favorable in Japan than in other countries
- Other (please explain:)

Question 12-b

Why did you not choose to issue climate change-related ESG bonds⁴ in Japan as a means of financing?

(Choose all that apply)

- No need to obtain external funds
- Do not have a project suitable for issuing the ESG bonds
- Demand from investors for the ESG bonds issued by the entity is limited
- Management and reporting associated with the issuance of the ESG bonds is burdensome
- Fund raising through other means of financing in Japan (e.g., loans) is more favorable than issuing the ESG bonds
- Conditions for issuing the ESG bonds are more favorable in other

countries than in Japan
 Other (please explain:)

Question 13

How are you planning to change the issuance of climate change-related ESG bonds⁴ in Japan going forward?

- Increase (including issuing new bonds)
- Maintain the status quo (including not issuing any bonds)
- Decrease
- Not decided

Notes: 4. "Climate change-related ESG bonds" refers to green bonds, sustainability bonds, sustainability-linked bonds with performance targets related to efforts on climate change, and transition bonds that comply with corresponding international standards and/or the Japanese government's guidelines.

5. If your entity is both an issuer and an investor, please answer both parts of the questions in Section 2.

(Questions for Investors)⁵

Question 11

Have you invested in climate change-related ESG bonds⁴ in Japan in the past 12 months (fiscal 2021)?

- a. Yes (Invested)
- b. No (Did not invest)

If you chose "a" in Question 11, please answer Question 12-a. If you chose "b," please answer Question 12-b instead.

Question 12-a

Why did you choose to invest in climate change-related ESG bonds⁴ in Japan?

(Choose all that apply)

- To improve the return/risk of the entity's portfolio
- To make social and environmental contributions through the investment
- To improve the entity's reputation and/or its ability to give explanations to stakeholders
- There are more climate change-related ESG bonds that fulfill the entity's investment needs in Japan than in other countries
- To respond to the needs of asset owners and/or clients
- Other (please explain:)

Question 12-b

Why did you not choose to invest in climate change-related ESG bonds⁴ in Japan?

(Choose all that apply)

- Do not believe the investment will lead to an improvement in the return/risk of the entity's portfolio
- The volume of the ESG bonds issued in the Japanese market overall is not sufficient
- There is not enough information to make investment decisions
- The entity prioritizes climate change-related ESG investments via other financial means in Japan (e.g., providing loans)
- There are more climate change-related ESG bonds that fulfill the entity's investment needs in other countries than in Japan
- No need from asset owners and/or clients
- Other (please explain:)

Question 13

How are you planning to change the investment on climate change-related ESG bonds⁴ in Japan going forward?

- Increase (including newly investing in the ESG bonds)
- Maintain the status quo (including not investing at all)
- Decrease
- Not decided

Notes: 4. "Climate change-related ESG bonds" refers to green bonds, sustainability bonds, sustainability-linked bonds with performance targets related to efforts on climate change, and transition bonds that comply with corresponding international standards and/or the Japanese government's guidelines.

5. If your entity is both an issuer and an investor, please answer both parts of the questions in Section 2.

3. For the Development of the Markets (All Respondents)

Question 14

If you have any opinion on what is needed for Japanese financial markets to develop further to contribute to addressing climate change, considering the developments observed overseas, please describe that below.

(Opinions)

4. Publication of the name of your entity (All Respondents)

Question 15

Please specify whether you approve the disclosure of the name of your entity in the list of survey respondents if the Bank of Japan decides to publish the list.

- Approve disclosure of the name
- Do not approve disclosure of the name

This is the end of the survey. Thank you very much for your cooperation.