

November 29, 2024

Financial Markets Department

Bank of Japan

## Minutes of a Meeting on the Third Market Functioning Survey concerning Climate Change

### 1. Outline

(1) Date: September 30, 2024, from 4:00 p.m. to 5:00 p.m.

(2) Form of the Meeting: Online conference

(3) Participants

- Business corporates, financial institutions, rating agencies, other financial associations and organizations
- Director-General of the Financial Markets Department, Deputy Director-General of the Financial Markets Department, Head of the Coordination and Market Analysis Division, Head of the Market Infrastructure Division

### 2. Introduction by the Bank of Japan

- The Bank provided an overview on the results of the third Market Functioning Survey concerning Climate Change.

### 3. Views provided by participants

- The Bank exchanged views with participants on the survey. Views provided by participants are as follows.

#### The market environment for climate finance

- While the volume of climate change-related ESG bond issuance peaked in 2021 globally, it has continued on the rise in Japan. However, the number of first-time issuers is peaking out, and we regard this as a sign that the Japanese market is transitioning from the growth phase to the maturity phase.
- Increase in the issuance of climate change-related ESG bonds seems to be plateauing of late. However, companies remain interested in these bonds regardless of their size, so we expect the market to expand over the medium to long term.

- While a large portion of climate change-related ESG bonds is currently issued by specific sectors, issuance by high-emitting sectors is likely to increase in the future. This is because, in order for Japan to achieve carbon neutrality by 2050, it is crucial that these sectors raise funds taking due account of their long-term goals.
- Although interest rates are on the rise, there seems to be no need to be concerned about the supply and demand for climate change-related ESG bonds. This is because the demand for ESG-related capital investments is expected to remain robust supported by the government's green transformation (GX) policies, and there is little uncertainty about the stance of fund providers, such as banks.
- We have been actively raising funds through sustainable finance to underpin efforts for decarbonization through financing. Moreover, we have formulated a new framework to expand our sustainable finance instruments, seeking to further utilize such financing. We intend to continue to actively utilize sustainable finance.
- As interest rates have risen to positive territory, there has been a noticeable trend of adding corporate bonds to investment portfolios. In this situation, whether investment products have ESG labels has become crucial, particularly for investors who manage funds of a public nature.
- The mixed assessment of "greeniums" in the survey may indicate the difficulty of measuring and identifying "greeniums." Given "greeniums" have been consistently observed in climate change-related ESG bonds issued by regional governments, they may partly reflect the depth of investor base and the degree of liquidity, and further exploration is desirable.
- According to the survey results, issuers are less active on issuing sustainability bonds than they are on issuing other types of ESG bonds. This might be due to the difficulty of structuring a project that can be considered both green and social.
- Issuance of sustainability-linked bonds has declined in the United States and Europe, due to concerns over "greenwashing." Their issuance has been increasing in Japan, and we consider it desirable for the market to expand with improvements in their quality, such as the proper setting of KPIs and ambitious SPTs<sup>1</sup>.

### Transition finance

- There has been a growing awareness of the importance of transition finance globally. Although this is also true in Europe, we have heard from some issuers that the

---

<sup>1</sup> Sustainability Performance Targets (SPTs) are specific numerical targets for sustainability-related KPIs that are set by issuers of sustainability-linked bonds.

compliance with the EU taxonomy is a challenge. Transition finance has also been gaining more recognition in Asia, where the share of the manufacturing industry is high as it is in Japan. Japan might be able to take international initiatives on transition finance, given its advancement in such financing.

- Regarding challenges for smoothly facilitating transition finance, survey respondents most often highlighted the need to facilitate international understanding. Meanwhile, since the beginning of this year, there have been global tailwinds for transition finance. For example, the ICMA<sup>2</sup> published a report on transition finance and a guidance on green enabling projects. Moreover, overseas investors have started to adopt a favorable stance on Japan's transition strategy. We believe that communication to and engagement with overseas stakeholders will remain key.
- Engagement is indispensable for transition finance. Investors, including those in regional areas, should make collective efforts to further enhance engagement with issuers, while utilizing, for example, the government's "Transition Finance Follow-up Guidance" as a reference.
- Investors' stance on transition finance varies depending on their industry and size. For example, the survey results highlighted insurance companies' particularly active stance. This difference in investors' stance partly results from the complexity of transition finance. It is important to improve frameworks for transition finance, so that they would be more understandable for investors.
- Although transition finance requires issuing companies to formulate and disclose transition plans and enhance dialogue with investors, it offers fewer economic benefits compared to non-ESG corporate bonds and bank loans. In order for the climate change-related ESG bond market to expand further, it may be necessary to provide certain policy incentives for both issuers and investors.

#### Climate-related disclosure, etc.

- Many survey respondents noted that "enhancing and/or standardizing information disclosure" and "improving transparency in ESG evaluation" are necessary to increase the size of the climate change-related ESG bond market in Japan. While the SSBJ<sup>3</sup> is in the process of finalizing domestic disclosure standards, we are keenly interested in how those responses will change in the forthcoming surveys.

---

<sup>2</sup> The International Capital Market Association (ICMA) is an international body of bond market participants, which has formulated the Green Bond Principles and other guidelines.

<sup>3</sup> The Sustainability Standards Board of Japan (SSBJ) develops domestic standards for the disclosure of sustainability information in Japan.

- To facilitate international understanding of climate finance frameworks in Japan, it is essential that their structures are acceptable to overseas investors and that issuers make disclosures in English including their transition plans based on the ISSB<sup>4</sup> standards and TCFD recommendations.
- While we engage in climate-related disclosures as an issuer in compliance with related legislation and guidelines, we think it is necessary that investors become more specific about the information they are looking for and that investors and issuers have closer communication with each other, so that disclosures would be more effective.

#### Views and requests regarding the survey and meeting

- The survey is highly valuable, in that it covers a broad range of respondents including both issuers and investors and is conducted with objectivity. We expect the Bank to continue to carry out the survey.
- We recognize that the survey is totally unique in that it comprehensively examines the climate change-related ESG bond market in Japan from various stakeholders' perspectives on a regular basis. We expect the Bank to continue to conduct the survey and thereby facilitate the expansion of the climate change-related ESG bond market, the decarbonization of business corporates, and improvement in corporate values.
- We expect the Bank to continue to hold meetings on the results of the survey, because they provide us with stakeholders' views while facilitating open sharing of challenges and promoting mutual understanding.

---

<sup>4</sup> The International Sustainability Standards Board (ISSB) formulates international standards for the disclosure of sustainability information.