

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

1. Outline

(1) Date: September 3, 2025, 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 Market Infrastructure Division

2. Introduction by the Bank of Japan

- The Bank provided an overview on the results of the fourth 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

- Since the beginning of this year, the issuance of climate change-related ESG bonds in Japan had experienced some difficulties temporarily due to uncertainty surrounding U.S. tariff policies and interest rate fluctuations; however, the issuance has been stable recently. In addition, while it is difficult to precisely measure greenium, we recognize that there have been many cases in which the issuance yields of climate change-related ESG bonds with a maturity of around 10 years were determined at somewhat tighter spreads than those of non-ESG corporate bonds.

- The issuance amount of climate change-related ESG bonds seems to have plateaued since the beginning of this year due to deteriorating issuance conditions, including interest rate environments. However, as shown in the survey results, we understand that the issuer base has been expanding steadily.
- As the market matures, economic incentives of issuing climate change-related ESG bonds -- such as enjoying favorable issuance conditions, including greenium, and the novelty of climate change-related initiatives -- have been fading gradually.
- The survey results show that the pricing of climate-related risks and opportunities in financial instruments has advanced. We think that this indicates progress in shifting toward pursuing quality in Japan's climate change-related ESG bond market, and consider it as a favorable trend for attracting investors who place importance on the quality. Additionally, the purpose of issuing climate change-related ESG bonds is shifting from expansion of investor base to importance in business strategy. We regard this as a good trend because the former purpose is more important during the market formation and expansion phase, but the latter purpose is essential under an environment where a shift toward pursuing quality progresses.
- In the United States, the issuance of climate change-related ESG bonds by U.S. companies has declined significantly since the inauguration of the new administration. However, even after the beginning of this year, a move to evaluate climate change-related responses on a risk basis remains, as shareholder proposals for requesting disclosure of transition plans and greenhouse gas (GHG) emissions continue to be observed.
- In Europe, there are moves to roll back excessive rules on disclosure and due diligence from the perspective of enhancing competitiveness. That said, with the long-term goal of decarbonization being maintained, the issuance of climate change-related ESG bonds has been robust, mainly led by green bonds, and strong demand has been observed for certain deals.
- We understand that the borrower base for ESG loans is expanding regardless of company size or creditworthiness.
- The amount of new lending for sustainability-linked loans and other related financing to large companies appears to be plateauing. There are also voices from the field that large companies' needs seem to have run their course.
- As for the outlook of Japan's climate change-related ESG bond market, we expect that a stable issuance environment will be maintained in contrast to overseas markets. This is because, in addition to steady capital investments to support green

transformation (GX) investments, it is expected that financial institutions will utilize the Bank's Funds-Supplying Operations to Support Financing for Climate Change Responses, and that the government will continue to provide support through the issuance of Japan Climate Transition Bonds.

Challenges surrounding climate finance

- There was an increase in the proportion of issuers identifying management and reporting burdens as a reason for not issuing climate change-related ESG bonds. However, ESG finance is an effective tool for issuers to appeal to the public about their sustainability initiatives. To promote market expansion, we expect issuers to actively utilize ESG finance to communicate with investors not only during the issuance phase but also in post-issuance reporting, and investors to demonstrate their discernment skills.
- Regarding ESG-related management and reporting, as an investor, we expect a reduction in monitoring burdens and an improvement in data availability through standardization. It would be desirable to establish a framework for information disclosure and its application for each sector.
- Although the investment methodologies of asset management companies usually incorporate climate change-related factors into their credit risk assessments and spread assessments, we think that these companies will also need to consider controlling financed emissions within their investment portfolios. The survey indicates that this kind of initiative is already common in other sectors, while this situation stems from the difference between proprietary investment and fiduciary investment. Thus, it is important for asset management companies to appeal to asset owners on this point.
- Many small and medium-sized enterprise managers, while recognizing the importance of decarbonization initiatives, voice the need to prioritize addressing issues such as rising procurement costs and labor shortages at this time. On the other hand, some of those enterprises have started to measure their GHG emissions at the request of their clients. As a financial institution, it is our challenge to convey the importance of such decarbonization initiatives.
- We will continue to promote ESG finance and the issuance of green bonds as an opportunity to appeal to a wide range of entities about our company's ESG initiatives. However, we recognize the challenge that green assets available for funding allocation could decrease under our long-term corporate strategy.

Transition finance

- The issuance of transition bonds increased significantly from 2021 and has continued to rise up to the present. The issuance of Japan Climate Transition Bonds by the Japanese government, the world's first transition bonds from a sovereign issuer, has gained significant attention both domestically and internationally.
- In the survey, there was an increase in the proportion of respondents selecting "the entity can raise enough funds through green finance or other financing means" as a reason for not planning to use transition finance. This indicates that even high-emitting industries have been able to raise funds flexibly without any crowding-out effect, which is also a positive situation for corporate bond investors evaluating companies' creditworthiness.
- Regarding challenges for facilitating transition finance, while survey respondents often highlighted the need to promote international understanding, international awareness of transition finance seems to have been permeating. For instance, recently, the draft guidelines for transition finance were published in the United Kingdom, and a sustainable finance taxonomy was unveiled in Australia. In Asia, where many high-emitting companies are located, there is growing interest in transition finance.
- Roadmaps for Promoting Transition Finance for each sector were formulated from 2021 through 2023, and companies developed their transition plans during this period as well. Since then, the government has formulated the Basic Policy for the Realization of GX and the 7th Strategic Energy Plan, and the roadmaps are expected to be revised. Issuers are also anticipated to update their transition plans and develop new plans.

Climate-related disclosure, etc.

- While preparing disclosures organizationally based on the Sustainability Standards Board of Japan (SSBJ) standards, we are struggling to determine the appropriate level of granularity in disclosure since it is difficult for us to grasp investors' interest of how governance, strategy, risk management, metrics, and targets will affect our financial results. In addition, third-party assurance should be obtained for a wide range of disclosed information, and we are carefully considering whether we can provide enough information required. It is true that responding to climate-related disclosure and third-party assurance is a burden on companies. We are thus raising awareness of the extent to which the market as a whole can tolerate such costs.
- While companies have advanced their environmental activities in line with their voluntary targets to date, the SSBJ standards will require companies to disclose key

performance indicators (KPIs) that represent their risks. There can be issues with these KPIs. For example, for Scope 3 emissions, which is a major KPI, even if a company's own products contribute to achieving a decarbonized society, its Scope 3 emissions will increase as its products become more widely used. In other words, decarbonization efforts and KPIs sometimes conflict. Companies will proceed with responding to disclosure based on the SSBJ standards. We believe that it is important for investors not only to focus on a single KPI but also to scrutinize the substance of each company's efforts toward decarbonization.

Views and requests regarding the survey and meeting

- The international situation surrounding climate change-related responses has been changing, particularly in the United States and Europe. We would like to ask the Bank to continue this survey because its continuous conduct substantially contributes to clarifying the issues and challenges that stakeholders in Japan should focus on.
- As companies are receiving many surveys concerning climate change, we would like to ask the Bank to consider ways to save the time required to respond to the survey.