

Report of the Tokyo Sustainable Finance Forum

On Feb 9th, 2021, Tokyo Metropolitan Government (TMG) held the Tokyo Sustainable Finance Forum. At the forum, experts from public and private sectors discussed the diversification and possibilities of sustainable finance. The audience were from various sectors such as public institutions, financial institutions, financial industry groups and business firms, etc.



Overview of the meeting

Date	Feb 9th, 2021 (Tue)	13:30~17:30
Organizer	Office for Strategic Policy and ICT Promotion, Tokyo Metropolitan Government	
Participation cost	Free	
Video streaming	https://www.sustainablefina.metro.tokyo.lg.jp/english	

Agenda

Item	Time	Contents of the session	Speaker
Opening Remarks /Lectures	13:30~13:45 (15 mins)	The vision of "Global Financial City: Tokyo" and efforts regarding Sustainable Finance	Hisaaki Terasaki Director General, Office for Strategic Policy and ICT Promotion, Tokyo Metropolitan Government
Keynote Speech 1	13:45~14:15 (30 mins)	Global Trends in Sustainable Finance	Takejiro Sueyoshi Special Advisor, UNEP Finance Initiative
Keynote Speech 2	14:15~14:45 (30 mins)	Development of Sustainable Finance in Japan	Mariko Kawaguchi Specially Appointed Professor, Rikkyo University Graduate School of Social Design Studies, Executive Advisor to CEO, Fuji Oil Holdings Inc.
Keynote Speech 3	14:45~15:15 (30 mins)	Sustainable Finance trends in Japan and overseas from the perspective of investors	Yasunori Iwanaga Chief Responsible Investment Officer, Amundi Japan Ltd.
Coffee Break	15:15-15:35 (20 mins)	-	-

Leo Van Stijn

Managing Director, Country Manager Japan, ING Bank N.V., Tokyo Branch

Satoshi Ikeda

Chief Sustainable Finance Officer, Financial Services Agency

Akie Iriyama

Professor, Waseda University Graduate School of Business and Finance, Waseda Business School

Keisuke Takegahara

Executive Officer, Deputy Chief Research Officer, Chief Manager of Sustainability Management Office, Corporate Planning & Coordination Department, Development Bank of Japan Inc.

Takumi Matsuo

Senior Officer, Corporate Strategy, Japan Exchange Group

Tomoki Muto

Managing Director, Global Head of Structured Finance, MUFG Bank, Ltd.

Yuki Isogai (Facilitator)

Technical Lead, Sustainability Center of Excellence, PwC Japan Partner, PricewaterhouseCoopers Sustainability LLC

Panel discussion 15:35-17:30 (115 mins) Discussion on diversification and possibilities of Sustainable Finance

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Opening Remarks/Lecture

Hisaaki Terasaki, Director General, Office for Strategic Policy and ICT Promotion, Tokyo Metropolitan Government

- Based on the "Global Financial City: Tokyo" Vision formulated in 2017, a variety of initiatives have been carried out, such as improving the attractive business and living environment, promoting players participating in the Tokyo market, and contributing to solving social issues through finance. It was also announced that Tokyo ranked fourth international financial center worldwide and second in Asia in a recent ranking.
- To consolidate Tokyo's place as an international financial city and respond to various changes in the external environment, such as COVID-19 and climate change, the importance of sustainable finance is increasing. In-depth discussions on sustainable finance through this forum is believed to lead to the realization of a sustainable future.
- Specific initiatives of TMG such as the issue of Tokyo Green Bonds, the operation of the Tokyo version of ESG Fund, and its membership in FC4S were introduced. With the intent to establish Tokyo's position as an global financial city, it is actively promoting a variety of initiatives emphasizing the perspective of sustainable recovery in the future in cooperation with the national government and private companies.

Keynote Speech 1

Global Trends in Sustainable Finance

Takejiro Sueyoshi, Special Advisor, UNEP Finance Initiative

- First of all, Mr. Sueyoshi stated that the starting point of managing the 21st century's planet successfully was to ensure the peaceful coexistence of humanity and nature. He then introduced the history of sustainable finance with a focus on UNEP FI's efforts. The recent global trend of net-zero, TNFD as a new movement, the mandatory TCFD, and the merger of IIRC and SASB were mentioned as well. He also explained the impact of such trends on financial institutions and businesses with case studies.
- He pointed out that the essence of capitalism is being reconsidered under this major trend, and stated that a great social and economic reform is becoming necessary. He also introduced recent discussions on the role of the CEO and stated that a shift is happening from shareholder capitalism to stakeholder capitalism.
- In the end, regarding the purpose and vision of Japan's finance, he emphasized the need to build a new order between the environment and the economy, from the past principle of putting the economy first. He pointed out that trends like Net Zero would bring about the biggest social reform in Japan after World War II, and he pointed out that it is time for financial institutions, as well as businesses and society as a whole, to reconsider the ideal financial system, as finance plays a role of infrastructure of society.

Keynote Speech 2

History of the Development of Sustainable Investment in Japan-From SRI to ESG Investment-

Mariko Kawaguchi, Specially Appointed Professor, Rikkyo University, Graduate School of Social Design for the 21st Century and Assistant to CEO of Fuji Oil Holdings, Inc.

- Professor Kawaguchi divided the development of sustainable investment in Japan into three phases: "The Dawn of sustainable finance: Socially Responsible Investment (SRI)," "Settlement and preparation period: From social responsibility to ESG (Sustainability)," and "Take-off Period: Integration of SDGs and ESG, sustainability with economy." She introduced detailed history at each stage, including the context of the times.
- She said that the market for sustainable finance in Japan, which has finally taken off in 2015, is expanding rapidly. She expected that in the future Japan market would become the world financial leader for solving global and local social issues by integrating Japan's traditional values with the latest financial technologies.

[Three phases of sustainable finance development in Japan]

1990s-2005: The Dawn of sustainable finance: the emergence of Socially Responsible Investment (SRI)

2005 -2015: Settlement and Preparation Period, from SRI to ESG (Sustainability)

2015- : Take-off: Integration of SDGs and ESGs (Sustainability) with Economy

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Keynote Speech 3

Sustainable Finance trends in Japan and overseas from the perspective of investors

Yasunori Iwanaga, Chief Responsible Investment Officer, Amundi Japan Ltd.

- From an investor's perspective, Mr. Iwanaga introduced trends in sustainable finance in Europe and Japan.
 - He explained investors' attitudes and investment approaches regarding responsible investment and ESG investment. As of 2018, Europe accounted for approximately half of the 3200 trillion JPY worldwide balance of responsible investment. He analyzed this as attributable to factors such as the action plans formulated by the European Commission and the established rules and disclosure framework.
 - In Japan, the implementation of the Stewardship Code and the Corporate Governance Code has led to demands for corporate activities and investment activities based on ESG. However, he pointed out that the uncertainty of economic returns and difficulties in measuring impact will become challenges in promoting ESG investment in future.
 - From the investor's viewpoint, he stated that engagement with an emphasis on ESG integration can contribute to enhancing corporate value, and he also mentioned four essential perspectives in engagement: management strategy, governance, performance management, and disclosure.
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The report of the panel discussion is on the next pages. >>>

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Panel discussion

The panel discussion discussed “Diversification and Possibilities of Sustainable Finance” from financial administration, financial institutions, and academic perspectives: (1) Characteristics and trends of sustainable finance in Japan; (2) Corporate value and sustainable finance; (3) Non-financial/ESG information; and (4) The decarbonization era, With/After COVID-19, and beyond.

Opening

- The facilitator, Ms. Isogai stated that as emphasized by previous lectures, SDGs and the Paris Agreement have already become mainstream, the Net Zero transition is now becoming full-fledged and as stated by Mr. Sueyoshi it will “bring one of the largest social transformations ever in the world.” In addition, in terms of improving the long-term value of a company, sustainability is now one of the most important parts of management agenda as well.
- As for sustainability finance figures, she pointed out that (1) In order to achieve the Paris Agreement, \$100 billion per year since 2020 will be required; (2) According to the International Energy Agency(IEA), it is estimated that \$2 trillion will be needed in the future to accelerate the transformation of the energy sector; and (3) As funds for achieving SDGs, it is estimated that \$2.5 trillion per year is insufficient. She pointed out that sustainable finance is a field with significant potential as well as a growing demand

Theme 1 Characteristics and Trends of Sustainable Finance in Japan

- As an overview of financial administration efforts, Chief Sustainable Finance Officer of Financial Services Agency, Mr. Ikeda introduced corporate governance reforms, including the Stewardship Code, and trends in which ESG and sustainability elements have been incorporated. He explained that the intention is to promote innovation and thereby increase corporate value after incorporating diversified opinions of various stakeholders into the corporate decision-making process. He also stated that, since companies’ environmental and social risks and opportunities affect corporate value, the evaluation of corporate value in the capital markets and in the context of future transformation of the economy and society is extremely important .
 - Subsequently, Mr. Takegahara of the Development Bank of Japan, introduced the overview of Japanese financial institutions' efforts in ESG and SDGs. Sustainable finance is rapidly expanding across all asset classes. (1) ESG investment is becoming mainstream in the world of investment, and (2) in direct finance, ICMA guidance and others have been developed and reliability and transparency has been established. He mentioned that the benefits of this include the expansion of alternative investment, such as environmental real estate, and (3) the monitoring function of indirect finance is expected to play a major role in sustainable finance.
 - Afterwards, Mr. Matsuo of the Japan Exchange Group, Inc. introduced trends of ESG information disclosure by Japanese companies. The Tokyo Stock Exchange encourages and supports voluntarily ESG information disclosure by companies. Specific initiatives included (1) the Corporate Governance Code encourages listed companies to proactively disclose non-financial information, including ESG information, to address social and environmental issues, and encourages the Board of Directors to consider such issues in collaboration with stakeholders other than shareholders; and (2) the publication of the “ESG Disclosure Practical Handbook”, which incorporates the perspectives of investors (e.g., the identification of material issues) and links to corporate strategies. In addition, regarding ESG disclosure, he pointed out that an upcoming challenge will be bridging the gap between the perceptions of companies and investors.
 - Regarding the differences between sustainable finance in Europe and Japan, Leo Van Stijn, from ING Bank Tokyo Branch, pointed out: (1) The level of awareness on the urgency of responding to climate change between Europe and Japan is different. In addition, Europeans are aware that responding to climate change requires immediate action; (2) Regarding the demand for data measurement and disclosure, investors and customers in Europe are strongly requesting for carbon footprint data which is used in carbon emission mitigation, and therefore disclosure of such data is mandatory, while in Japan it has not yet become mandatory. However, Japan declared a net zero commitment by 2050 and a strategy for achieving decarbonization, so he believes that the decarbonization agenda in Japan will accelerate.
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Panel discussion

Theme 2 Corporate Value and Sustainable Finance

- Professor Iriyama of the Graduate School of Business Management at Waseda University pointed out that Japanese companies are passively working on ESG in response to external pressure globally, but they haven't actively focused on it. He pointed out that the Japanese have a weak sense of crisis, so the awareness of responding to climate change stays low. Besides, the Japanese lack a long-term perspective, partly due to the short tenure of top management in Japanese companies. He stated that medium-to long-term corporate value creation is a long-term perspective based story, and it will ultimately transform into profits by making investments and innovations headed for the future that contribute to the resolution of social and environmental issues.
- Mr. Muto from Mitsubishi UFJ Bank, Ltd. introduced banks' efforts to increase corporate value. ICMA announced its concept of Climate Transition Finance, and the Japanese government has taken the lead in formulating a fundamental policy on transition finance. Against this backdrop, financial institutions have also stated that they will support transition finance in a manner that is acceptable to various stakeholders. He also introduced the perspective of financial inclusion and engagement policy.
- Mr. Ikeda of the Financial Services Agency explained that management with an awareness of the cost of capital is important for enhancing corporate value over the medium to long term. To this end, he stated that it is necessary for companies to talk about their future direction not only with financial figures but also with non-financial information. FSA is also working on promoting business management which is with conscious of the cost of capital. To analyze the impact of the sustainability component on the cost of capital, he introduced that IIRC integrated reporting framework and SASB materiality assessment mechanisms can be taken as reference.

Theme 3 Non-financial and ESG Information

- Regarding non-financial information for financial institutions and investors, Mr. Takegahara from Development Bank of Japan explained that the idea of integrating non-financial information into ordinary valuation, known as ESG integration, is the mainstream. Since long-term investors will examine long-term uncertainty, he explained that the sustainability of a business model is important because what can be explained by financial data is limited. In this case, materiality is essential as it is a factor affecting long-term stability of the business model. Regarding the trend of standardization of non-financial information, he stated that the standardization and mandation of disclosure rules are inevitable in a sense and that it is now a transitional period.
- Regarding corporate non-financial information disclosure, Mr. Matsuo of the Japan Exchange Group expressed his opinions by classifying it into (1) qualitative and strategic information disclosure and (2) quantitative and pro forma information disclosure. Regarding (1), he stated that disclosure of materiality linked to individual business models, corporate strategies, and governance is required, and that regarding (2), it is quantitative information required by quantitative investors and investors use indexes, but as far as possible, among various ESG evaluation and ratings, it would be a challenge to let companies take in about why this would be called into questions.
- Professor Iriyama of the Graduate School of Business Management at Waseda University pointed out that although corporate non-financial information disclosure is important, the key issue is not information disclosure, but the issue of the company's ability to explain its future value, and the issue of how to deal with investors. He said, for example, that it was important to thoroughly discuss this issue at IR meetings. In particular, it was necessary for the CFO and management to seriously discuss sustainability 30, 40, or 100 years into the future, and also stated that it is necessary for Japanese companies to make long-term commitments and investments for the future.

Themes 4 The decarbonization era, With/After COVID-19, and beyond

- Mr. Muto pointed out that under COVID-19, how to respond to social and customer issues requires a conversion. He introduced MUFG's efforts, specific examples included (1) the issuance of COVID-19-compatible sustainability bonds for retailers, (2) portion out 0.5% of the Group's net operating profits in the previous fiscal year to contribute to social contribution activities (by donations, etc.), and (3) the active promotion of ESG financing in Asia. He also stated that assessing the impact of non-financial conditions was one of the challenges that financial institutions should address.
 - Leo Van Stijn of ING Bank Tokyo Branch, cited responses to biodiversity as the next trend toward decarbonization. The EU has already formulated a biodiversity strategy for 2030, and he explained that this strategy is an important part of the European Green Deal. He also mentioned trends in resource circulation and stated that efforts to promote the Circular Economy are becoming more active in Europe, and that reducing, reusing and recycling resources will also contribute to responding to climate change.
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Panel discussion

Closing

After the Q&A session, panelists gave their expectations for Tokyo aiming to become an advanced city in sustainable finance.

- Mr. Matsuo from the Japan Exchange Group said that he believes that the idea of “building an ecosystem” of emerging international financial cities is extremely important. While the Financial Services Agency mainly responds to the institutional aspect, it is extremely important for the Tokyo Metropolitan Government to support the ecosystem that does not included in the institutional aspect yet, and he said that he would like to cooperate with it in sustainable finance.
 - Mr. Takegahara from the Development Bank of Japan, stated that he reconfirmed the early history of sustainable finance from what was addressed by Professor Kawaguchi in keynote speech. He would like to discuss how to develop the sustainable finance in future. With such a large concentration of financial institutions, Tokyo should be the only place where as many industries engage in discussions across the board, in the future he would like to create a space to continue the conversation.
 - Mr. Ikeda of FSA stated that creating an International Financial Center is important. He pointed out that not only developing the financial market based on individual financial assets, but also gathering capital globally will become important in the future in order for Japan to become a market where Japanese companies or even various growing companies in Asia can raise capital. In this sense, he said that sustainable finance will be an important starting point, and he would like to continue to support the Tokyo Metropolitan Government's efforts of becoming a global financial city.
 - Leo Van Stijn from ING Bank, said Tokyo has the potential as an ecosystem and expects it to become a stronger international financial hub in the future. He suggested that more businesses will come into Tokyo from around the world by making cities themselves more sustainable and maintaining ecosystems.
 - Professor Iriyama from Graduate School of Business Management at Waseda University said that to create a strong sense of place, as mentioned by Mr. Takegahara, videos can be used to effectively visualize problems that are occurring around the world. Second, regarding the discussion on sustainable finance, he stated that he expects startups to be active in this field. In Japan, young start-ups which aim to solve social and environmental problems are increasing.
 - Lastly, Mr. Muto of Mitsubishi UFJ Bank, Ltd. pointed out that the governor of Tokyo Metropolitan Government had set out to reduce emissions on the Davos Agenda. He stated that, at the outset, Tokyo Metropolitan Government will make the city a green city by reducing CO2. In addition, as a financial institution, they would like to take sustainable finance as an opportunity to support Tokyo.
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