

September 29, 2023

Financial Markets Department

Bank of Japan

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

### 1. Outline

(1) Date: August 9, 2023, from 4:00 p.m. to 5:00 p.m.

(2) Form of the Meeting: Via conference call

### (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 second 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

- With regard to climate change-related ESG bonds, the issuance amount and the number of issuers are both increasing. Also, these bonds are issued in a wider variety of types, such as transition bonds and sustainability-linked bonds.
- In fiscal 2022, although the amount of overall straight corporate bond issuance decreased from fiscal 2021, the amount of climate change-related ESG bond issuance increased, which reflected the strong investment demand for these bonds.
- The current supply and demand conditions for climate change-related ESG bonds

seem tight. For example, in some cases of green bond investment, investors are allocated a smaller amount of bonds than they have requested.

- The demand for climate change-related ESG bonds seems to be strong compared with that for straight corporate bonds, while there seem to be not much difference between the price of these two bonds.
- In deciding whether or not to invest in climate change-related ESG bonds, investors are paying attention not just to whether the bonds are identified as "ESG" but also to the return of the bonds.

#### Issues regarding climate-related disclosure

- With regard to information disclosure, progress can be discerned compared to the previous survey. However, some investors still pointed to the lack of necessary information. It is important to find out more precisely what information is necessary for investors.
- To make sure that disclosure by issuers actually meets the needs of investors, engaging with investors is important, so that issuers can be on the same page with investors.
- Some of the disclosure items that are mandatory under global disclosure standards, such as Scope 3 emissions and the impact of physical risks, can be very difficult to measure and evaluate. Relevant ministries and agencies are playing a central role in providing necessary data and in preparing practical guidebooks on how to carry out measurement and evaluation, and we expect that these efforts will continue.
- We are concerned resources that should be directed toward decarbonization efforts will instead be devoted to dealing with disclosure. To prevent that, we hope disclosure standards that are beneficial for the promotion of decarbonization will be formulated.

#### Challenges for the future in expanding climate finance

- Standardizing information disclosure and improving the transparency of ESG evaluation is important to expand the issuer base.
- With regard to information disclosure, many companies seem to seek a certain level of discretion. Consideration may be necessary to let companies tailor their disclosure based on their business situation.
- In order to stimulate the issuance of climate change-related ESG bonds, ensuring

economic incentives for issuers is important.

- In order to advance ESG investment further, it is important that asset owners focus not just on investment returns but also more on environmental and social impacts.
- In order for high-emitting sectors to move forward in their decarbonization efforts, transition finance should be provided smoothly.
- The use of transition finance should help achieve carbon neutrality by 2050. Under the current concept of financed emissions, financial institutions' provision of transition finance can result in an increase in their own Scope 3 emissions. We hope that the concept of financed emissions will be refined in a way that makes it easier for financial institutions to work on transition finance.
- There is growing awareness of the problem of greenwashing, particularly overseas. It is important to continue to assess the situation, including whether similar trends exist in Japan, utilizing the survey and other means.

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

- The survey is valuable, since there is no other comprehensive survey in Japan regarding climate finance. We hope that the survey will continue to be carried out.
- The external environment surrounding the climate change-related ESG bond market changes from day to day, and it is important that the survey be carried out regularly to grasp the changes.
- The English version of the survey results is useful when talking with overseas investors. We hope for the continued publication of an English version.
- It would be useful to find out not just about climate change-related ESG bonds as a whole but also about the characteristics of each ESG bond type, such as green bonds, transition bonds, and sustainability-linked bonds.
- This meeting enhances our understanding of the survey results and also gives us the opportunity to hear the views of companies in different business categories. We hope that the meeting will continue to be held after each round of the survey.