

# Update on the Japan Sustainable Finance Market

## *36<sup>th</sup> ABA General Meeting*

Makati City, November 2019

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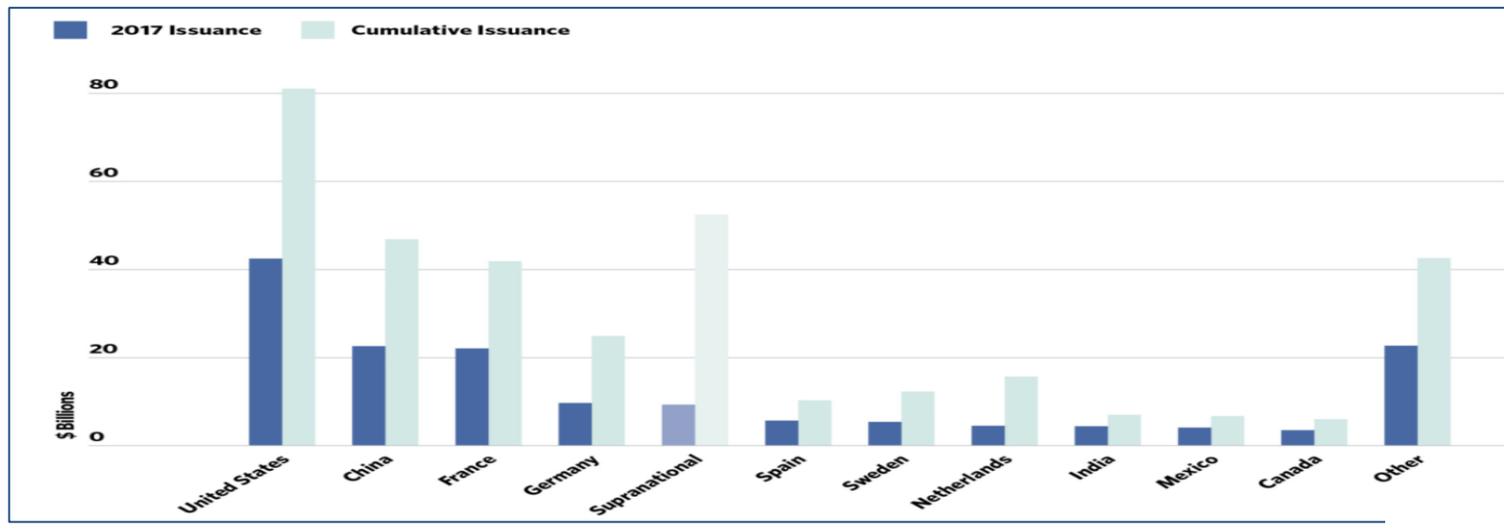
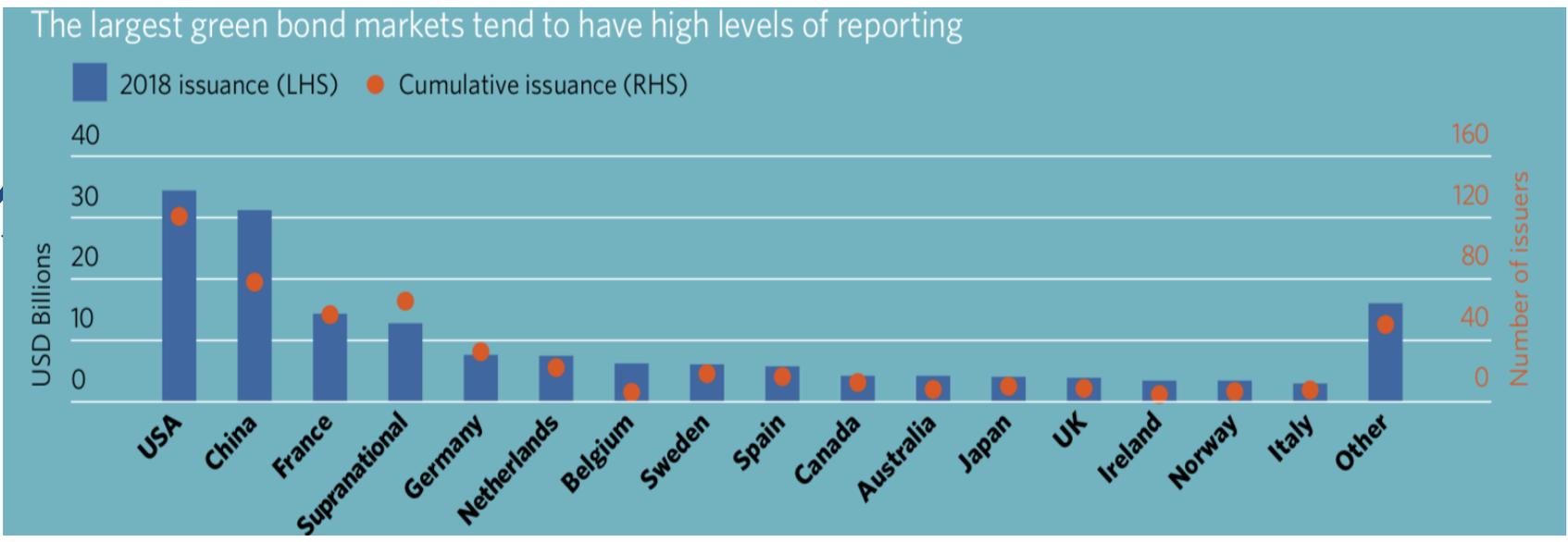
# Outline

1. State of the Green Bond Market in Japan
2. Green, Social, Sustainability Bonds, discussion about transaction bonds
3. From limited use of proceeds to unlimited use of proceeds
4. Role of CRAs in Sustainable Finance & Nexus of Bank-CRA Cooperation

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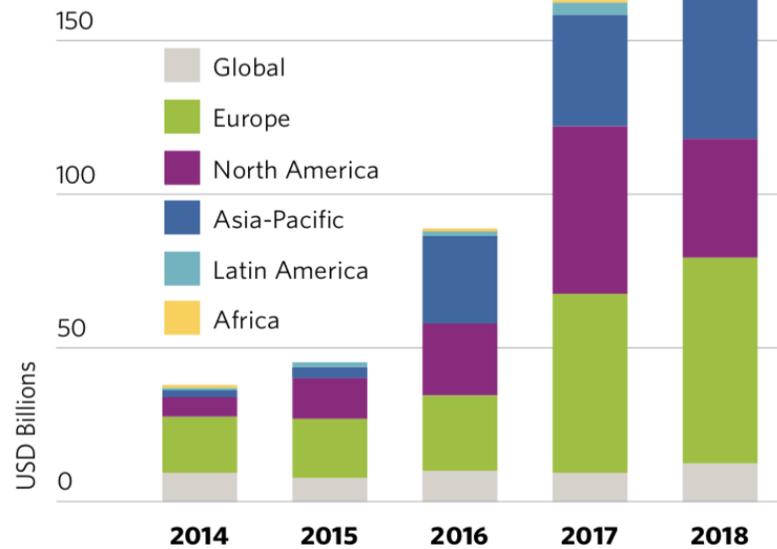
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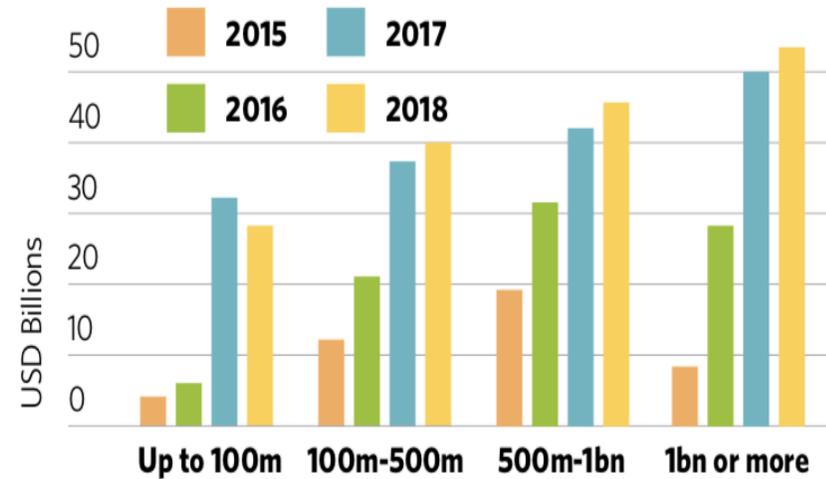


# 2018

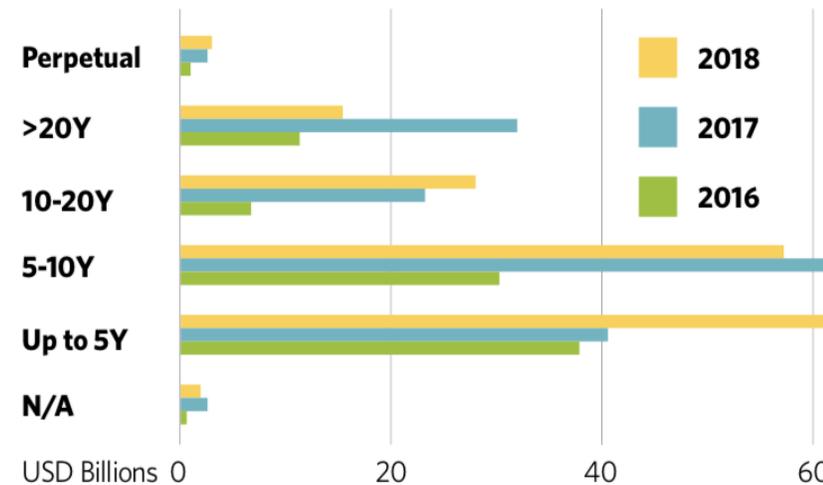
Highest growth rate: Asia-Pacific region



Green bond deals have grown across size brackets



Region	Green bond markets	Issuers	Amount issued (USDbn)	Change 2017-18
Africa	4	11	2	↓
Asia-Pacific	18	222	120	↑
Europe	22	193	190	↑
Supranationals	-	11	66	↑
Latin America	7	24	7	↓
North America	3	167	137	↓

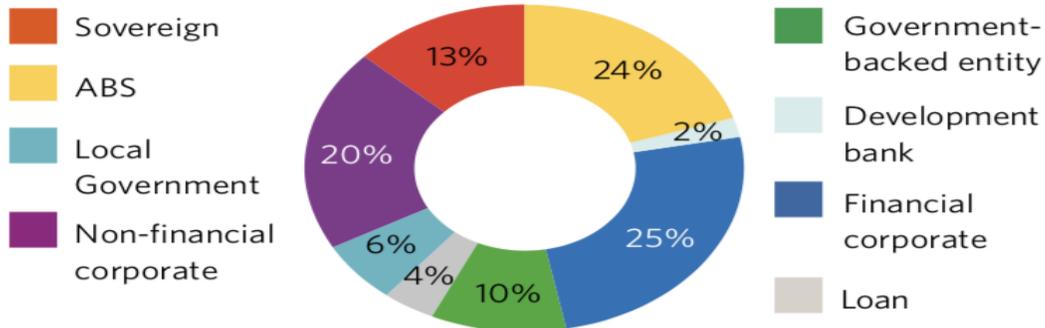


# 2018

## Japan enters into Top 10 in 2018 ranking

2018 Rank	Country of risk	2018 issuance		Change v 2017	% DM issues
		USDbn	Deals		
1	USA	34.1	1,159	↓	34%
2	France	14.2	20	↓	17%
3	Germany	7.6	19	↓	9%
4	Netherlands	7.4	8	↑	6%
5	Belgium	6.3	3	↑	2%
6	Sweden	6.1	58	↑	5%
7	Spain	5.8	10	↓	5%
8	Canada	4.3	9	↓	3%
9	Australia	4.2	9	↑	3%
10	Japan	4.1	29	↑	3%

Financial Institutions 25%、Corporate 20%、ABS 24%



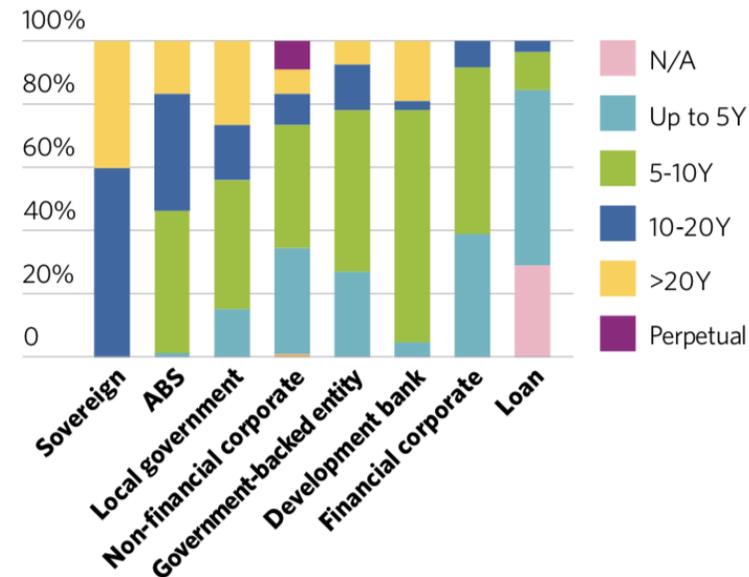
出典：Climate Bond Initiative The State of the Market 2018

## 50% of climate bonds are for clean transportation

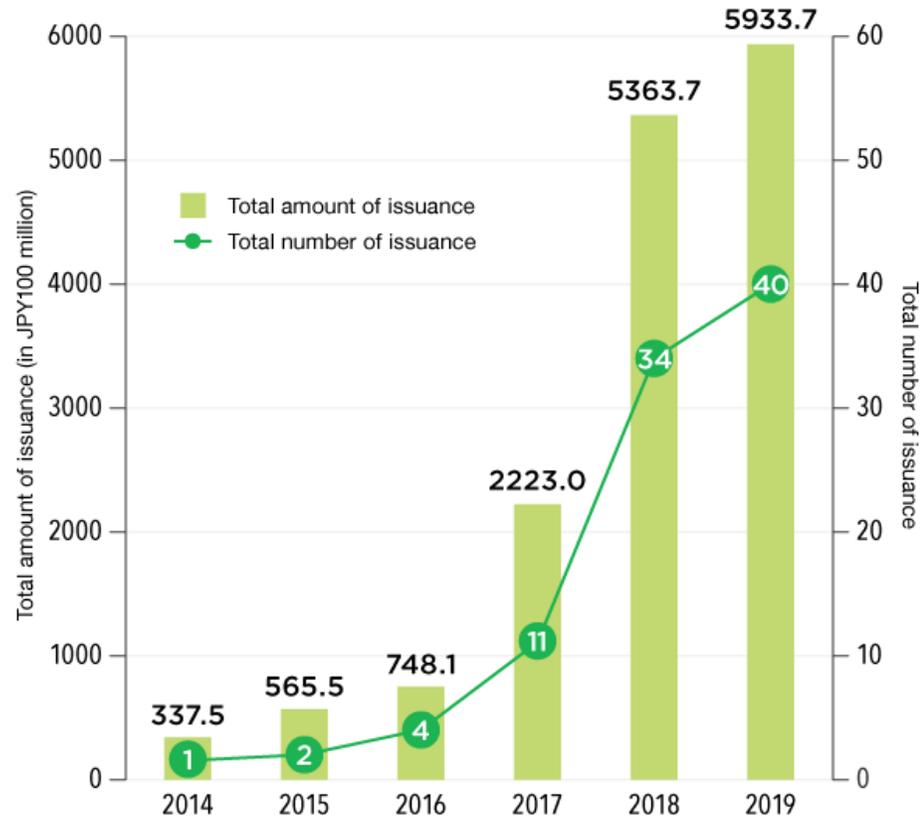
Rank	Climate-aligned sector	USD aligned outstanding	% of DM climate-aligned market
1	Transport	257bn	53%
2	Energy	128bn	26%
3	Water	68bn	14%
4	Land use	29bn	6%
5	Waste	4bn	1%
6	Buildings	2bn	<1%

\*Note: All data as of mid-2018. USD figures rounded to 1bn

## Terms tends to become 5-10 years



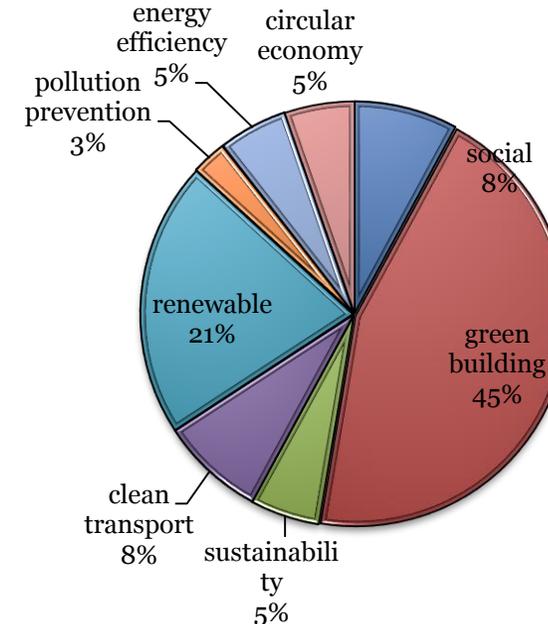
## Sustainability Finance issued in Japan



As of October 2019  
 Exchange rates: USD1=JPY110, EUR1=JPY135,  
 AUD1=JPY90  
 Source: Created by the Ministry of the  
 Environment based on websites of the issuers

## Sustainable Bond Issuance in Japan in 2018 and 1<sup>st</sup> half of 2019

### 1<sup>st</sup> half of 2019



Source: Calculated by JCR based on Issuer's press releases



## • Clean Transportation

Issuer : JR TT, ODAKYU  
Use of Proceeds : Infrastructure related to electric railways,  
Environmental Benefits:  
Modal Shift to mass transit

Issuer: NYK Line, Mitsui O.S.K. Lines  
Use of Proceeds : LNG powered ship, scrubber, ballast water treatment  
Environmental Benefits:  
Reduction of CO<sub>2</sub>, SO<sub>x</sub> and NO<sub>x</sub>, Conservation of nature and pollution prevention

## • Renewable energy

Fuyo General Leasing Company

Use of Proceeds : Solar Power Generation  
Facilities in Fukushima Area

Environmental Benefits :  
Efficient land use by installing mega-solar power generation facilities in farms, golf park, etc. which cannot be used due to the effects of East Japan Earthquake in 2011.  
This is in line with the government's renewable energy plan in FUKUSHIMA, to revitalize area damaged by the natural disaster.

## • Green Building (J-REIT)

Issuer : J-REITs

Use of Proceeds : Buildings which has a certain level of environmental certification regionally recognized, such as DBJ Green Building, CASBEE and BELS

## • Small scale solar power

Issuer: Orient Corporation, Jaccs

Use of Proceeds : 「Green reform loan」

Environmental benefits :

Promoting distributed renewable electricity by providing retail loans to private houses for installing solar power plants on roofs, all electric houses, other energy efficient facilities.

\* Significance in Japan:  
Japan with frequent natural disasters, such as earthquake, typhoon, floods, etc., needs distributed (self recovered) electricity for in case of emergency. JCR evaluates this use of proceeds is especially important for this country.

## Contributing to circular economy

Issuer: Daiken Corporation

Use of proceeds:

the production of insulation boards from construction waste materials, namely a steel manufacturing by-product and unused volcanic soil

Environmental benefits:

Contributing to realize circular economy

## Small Scale Hydropower

Issuer: Ricoh leasing

Use of proceeds: Solar power and small scale hydropower generation facilities

Environmental benefits:

Increasing the percentage of renewable energy supply in Japan

## Clean Transportation (EV Motor)

Issuer: Meidensha

Use of proceeds:

Infrastructure to produce EV motors.

Environmental benefits:

Promoting cleaner vehicles.

## RE Action related loan facilities

Issuer: Fuyo General Leasing

Use of Proceeds:

Loans for introducing energy efficient facilities in a company, a plant, a university, etc., who join the Renewable Energy introduction initiative in Japan, called "RE Action".

Environmental benefits:

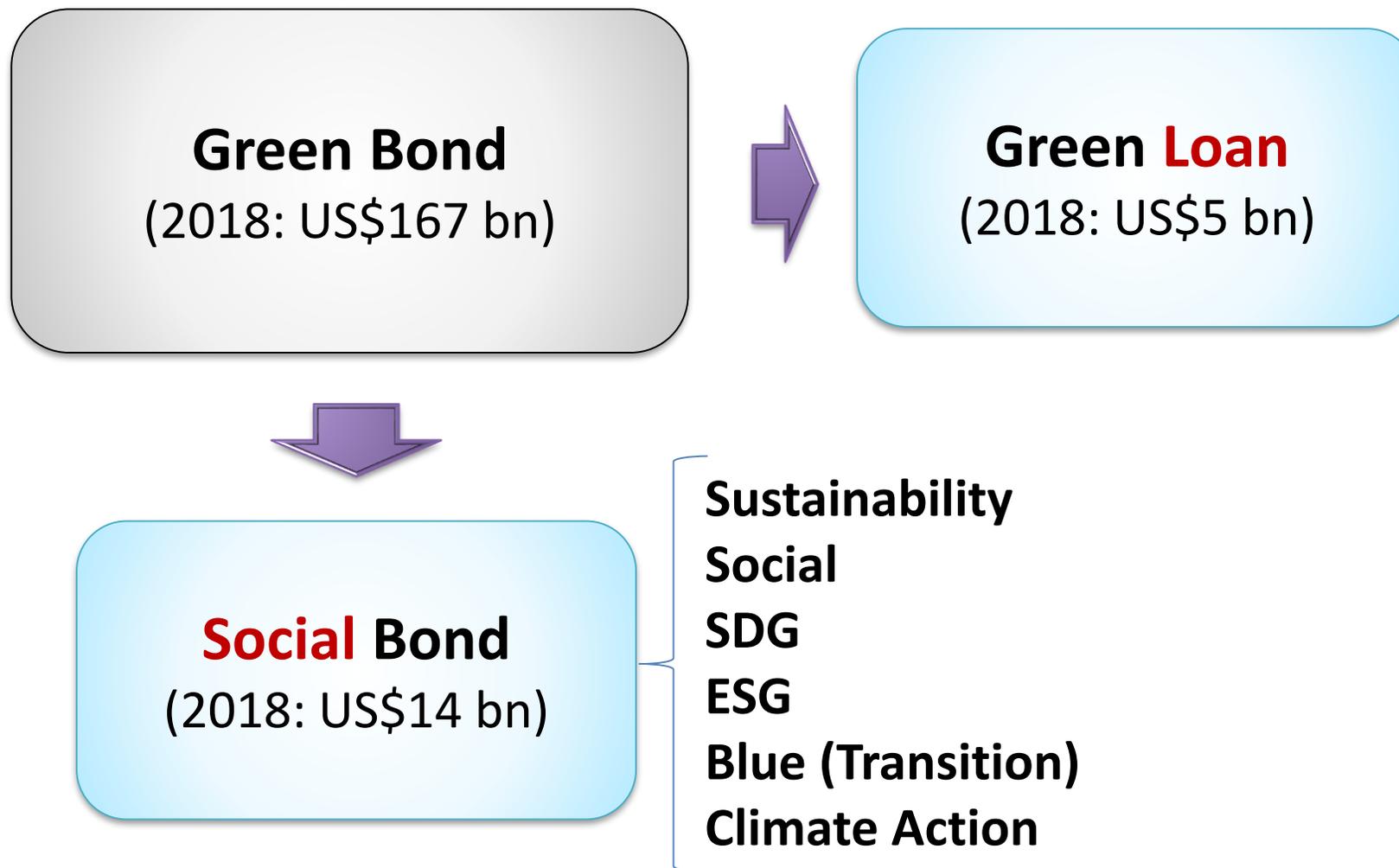
Incentivize for SMEs to introduce renewable energy as their energy sources.

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## Evolution (1)

### Variation in specified Use of proceeds



(Source) Climate Bond Initiative, "Green bonds: The state of the market 2018"

# Social Bonds/Sustainability Bonds in Japan

Issuer: ANA Holdings

Issue Amount: 5 Billion JPY

Use of Proceeds:

(1) Renovation of airport facilities, facilities, and websites for universal services for passengers

(2) Renovation of facilities and equipment for universal support for employees

Issuer: Mitsui O.S.K Line

Issue Amount: 20 billion JPY

Use of Proceeds:

(1) Establishment of the Philippine University of Merchant Shipping

(2) Workplace Reform

(3) Ballast Water Treatment Equipment

(4) SO<sub>x</sub> scrubber

(5) LNG fuel ship

(6) LNG fuel supply ship

(7) Energy-saving Propeller Boss Cap Fins (Upgraded PBCF)

(8) Wind Challenger

# Introducing Transition Bonds

## AXA Group

- **Green bond market needs a new “transition” bond to allow carbon intensive companies to finance their gradual shift away from fossil fuels, AXA Investment Managers has said.**

While green bonds have become established options for fixed income investors, AXA IM believes the asset class is at a crossroads, with the potential for the bonds to be undermined by a desire for further issuance which the sector cannot currently provide.

As such, AXA IM’s ESG research and engagement team is calling for a new type of bond that is required to help companies which are not yet green - and will therefore struggle to justify high quality and eligible for any “green taxonomy” green bonds - to instead issue debt which is tied to them becoming greener businesses.

The bonds could be used to finance projects such as carbon capture storage, cogeneration plants and gas transport infrastructure, among other areas.

These transition bonds would help investors overcome the major challenge of providing capital not just to companies which are already green, but to those which have ambitions to become so.

## CANADA Government

- **Just Transition Task Force**

The Pan-Canadian Framework on Clean Growth and Climate Change (Framework) was developed to meet Canada’s emissions reduction targets, grow the economy, and build resilience for a changing climate. However, this Framework will have an impact on communities and workers in Alberta, Saskatchewan, New Brunswick and Nova Scotia that rely on coal-fired electrical generation for their economic base. The Government of Canada recognizes that there needs to be a just transition in our move towards cleaner energy sources so that these communities do not bear the full weight of our broader environmental goals. As such, Budget 2018 saw the announcement of \$35 million over five years to assist coal affected communities and workers. Western Economic Diversification Canada (WD) and the Atlantic Canada Opportunities Agency (ACOA) have been asked to deliver these supports and to work with our federal and provincial partners to assist communities.

# Future perspectives and challenges

- ✓ Diversifying global assets, considering the national context  
(While it is important to have a globally consistent standard, it should be necessary to consider the national context, such as geographical characteristics, current energy source mix, etc. )
- ✓ CSV and Climate Change  
(Some Japanese manufacturer appealed its green technologies to issue green bonds whose use of proceeds are for manufacturing environmental friendly goods. By doing so, that company can disseminate its advanced technologies to all over the world)
- ✓ Who judges green wash assets in the social bonds' use of proceeds  
(No gatekeeper exists.)
- ✓ Issuers and investors are expected to choose which financial products or what use of proceeds really contribute to Sustainable society.

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## LMA

### “Sustainability Linked Loan Principles”

- SLL will be used for general corporate purposes (instead of specific uses)
- SLL looks to improve the borrower’s sustainability profile by aligning loan terms to the borrower’s sustainability performance

## UNEP-FI

### “Positive Impact Initiative”

- Holistic approach to sustainable issues
- Three Principles:
  1. [**Definition**] Serve to finance Positive Impact Business
  2. [**Framework**] Need adequate process, methodology and tool
  3. [**Transparency**] Should provide transparency and disclosure

# What is Sustainability linked loans (SLLs)?

**All Loan products which give incentives to predetermined borrower's performance which has relation with sustainability**

**Performance regarding sustainability is measured Sustainability Performance Targets (SPTs)**

**No need to connect to specified projects. Use of proceeds classify as working capital in many cases.**

**Instead of specification of use of proceeds, SLLS measures improvement of predetermined SPTs**

**SLLs may have both factors of green loan and SLLs**

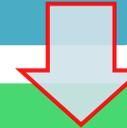
# Core Principles

**Relationship to Borrower's Overall Corporate Social Responsibility (CSR) Strategy**

**Target Setting – Measuring the Sustainability of the Borrower ( by SPTs)**

**Reporting ( to lenders)**

**Review**



# SPTs Category examples

\* Below lists are some examples of SPTs and not limited to.  
Various SPTs can be set according to Borrower's SDGs goal.

Category	Example
Energy Efficiency	Improvements in the energy efficiency rating of buildings and/or machinery owned or leased by the borrower
Greenhouse gas emissions	Reductions in greenhouse gas emissions in relation to products manufactured or sold by the borrower or to the production or manufacturing cycle.
Renewable energy	Increases in the amount of renewable energy generated or used by the borrower.
Water consumption	Water savings made by the borrower.
Affordable housing	Increases in the number of affordable housing units developed by the borrower.
Sustainable sourcing	Increases in the use of verified sustainable raw materials/supplies.
Circular economy	Increases in recycling rates or use of recycled raw materials/supplies.
Sustainable farming and food	Improvements in sourcing/producing sustainable products and/or quality products (using appropriate labels or certifications).
Biodiversity	Improvements in conservation and protection of biodiversity.
Global ESG assessment	Improvements in the borrower's ESG rating and/or achievement of a recognised ESG certification.

# SLLS and SPTs Example

(Europe)

Borrower	Amount	SPT
CAPITALAND	SGD 150 million Loans	To be listed in Dow Jones Sustainability World Index (DJSI World) and Asia Pacific
OLAM	USD 500 million Syndicated Loans	ESG score
DSM	EUR 1 billion Credit Lines	GHG emission reduction
Indorama Ventures	EUR 100 million Loans	Overall Environmental Performance
Kemira	EUR 400 million Credit Lines	Overall Environmental Performance
Solvay	EUR 2 billion Credit Lines	GHG emission reduction
Stora Enso	SEK 6 billion Green Bonds	Overall Environmental Performance

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# Principles for Responsible Banking

130 banks from 49 countries signed the principles on 22 and 23 Sept., 2019.

 <p><b>PRINCIPLE 1: ALIGNMENT</b></p> <p>We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks.</p>	 <p><b>PRINCIPLE 2: IMPACT &amp; TARGET SETTING</b></p> <p>We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.</p>	 <p><b>PRINCIPLE 3: CLIENTS &amp; CUSTOMERS</b></p> <p>We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.</p>
 <p><b>PRINCIPLE 4: STAKEHOLDERS</b></p> <p>We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.</p>	 <p><b>PRINCIPLE 5: GOVERNANCE &amp; CULTURE</b></p> <p>We will implement our commitment to these Principles through effective governance and a culture of responsible banking.</p>	 <p><b>PRINCIPLE 6: TRANSPARENCY &amp; ACCOUNTABILITY</b></p> <p>We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.</p>

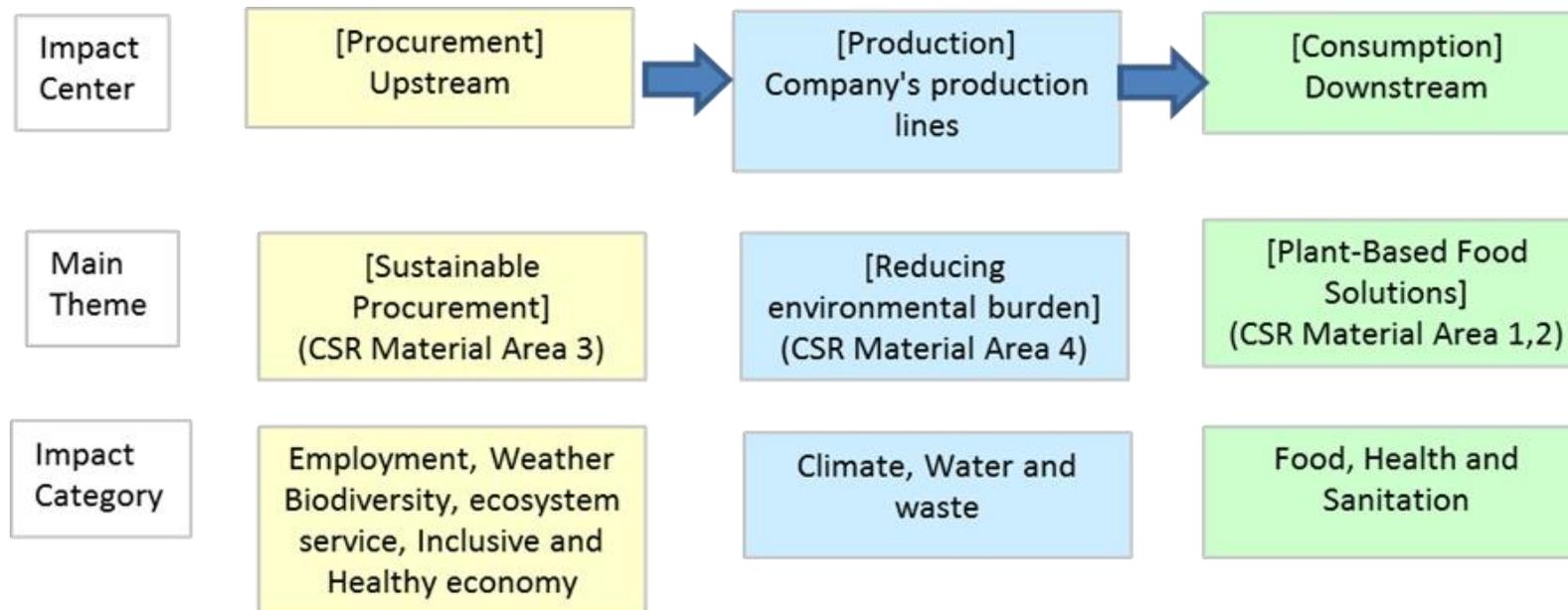
## What the banks have to do

- Establish an internal positive impact analysis system and rules in 48 months.
- During the end of the deadline, it is useful for the banks to utilize the third party opinions on their positive impact analysis and relevant positive impact finance

## Case Study: PIF in Japan (FUJI OILs)

- Sumitomo Mitsui Trust bank implemented the first positive impact finance in line with UN PI Principle in 2019.

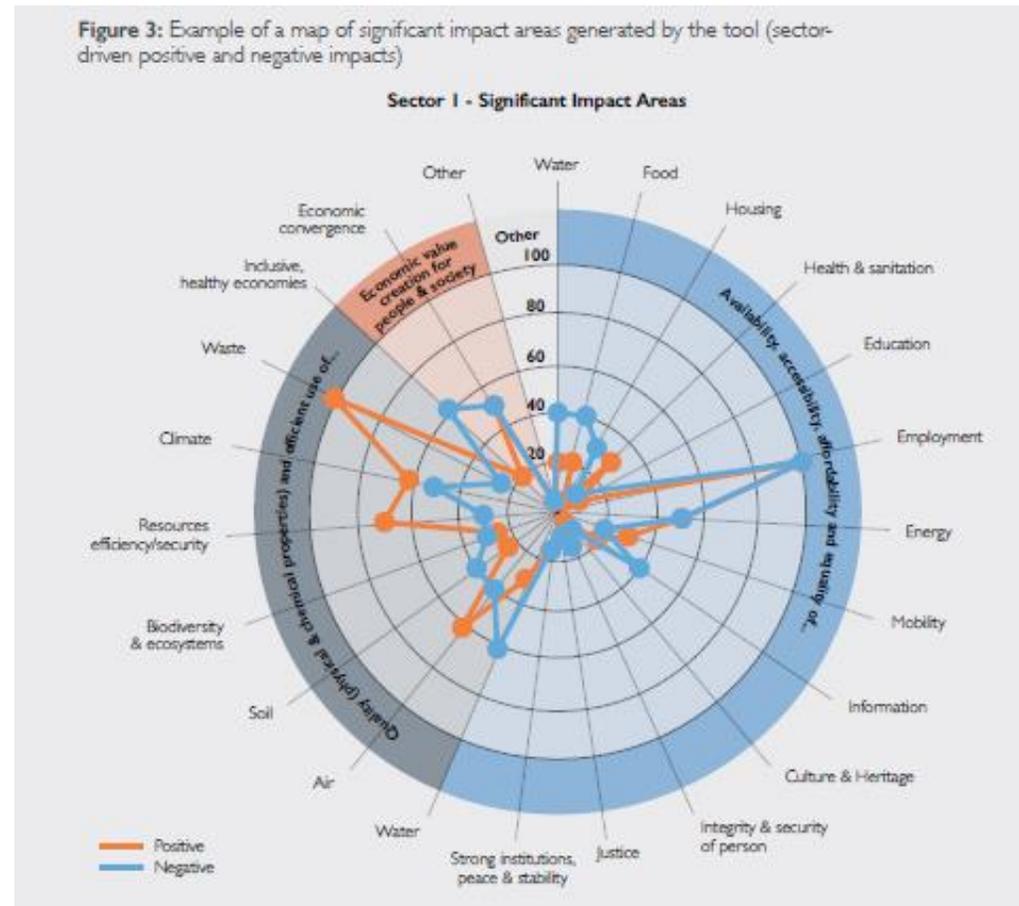
[Holistic impacts categorized by supply chain]



- JCR verifies whether the impact analysis done by the Bank to Fuji Oils are appropriate or not and submit a third party opinion on this finance.

# POSITIVE IMPACT ANALYTICAL TOOL

- UNEP PI Corporate finance WG are developing holistic impact analytical tool and publish the tool prototype with introduction manual on September 2019.
- Through publishing this, it enhances banks to internally have its own impact analysis tool to identify whether a company has Positive Impact (PI) on SDGs, PI Transition or NO-PI.



Thank you.