SDGs Promotion Working Group Report

(Tentative Translation)

December 2019

Type II Financial Instruments Firms Association

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SDGs Promotion Working Group
Report

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List of SDGs Promotion Working Groups

April 8, 2019
Type II Financial Instruments Firms Association

Chairman	KOMATSU Masami	(Music Securities, Inc.	President/CEO	)
Vice Chairman	ISOGAI Yuki	(PricewaterhouseCoopers Sustainability LLC	Partner	)
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〃	KAWANABE Ruriko	(Daiwa Securities Co.Ltd.	Head of SDGs Promotion Office	)
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〃	KISHIDA Yoshifumi	(Nomura Securities Co., Ltd.	Executive Officer Legal Department	)
〃	SHIMIZU Daigo	(Goldman Sachs Japan Co., Ltd.	Head, Business Development Department, Equity Sales Group	)
〃	SHIMIZU Rin	(Sumitomo Mitsui Banking Corporation	Vice President, Growth Industry Cluster Department	)
〃	SUZUKI Aya	(Graduate School of Frontier Sciences, The University of Tokyo	Associate Professor	)
〃	NAITO Yutaka	(BlackRock Japan Co., Ltd.	Head, New Product Development Department	)
〃	NAKA Hiroshi	(Professor, Policy Alternative Research Institute, The University of Tokyo Former Vice President of the World Bank and President of Internal Audit		)
〃	YOSHIDA Naoki	(Mitsubishi Research Institute, Inc.	Deputy General Manager Corporate Research & Development	)

13 people (Abbreviated honorific title, in the order of Japanese syllabary)

※1 Only current affiliation and title are used.

※2 Mr. R. SHIMIZU has been a member of the committee since April 7, 2019.

※3 Up until March 31, 2019, Senior Manager HIGASHIKAWA Kenya of the Business Collaboration Department (Securities & Trust Services) of Mizuho Bank, Ltd. was a member of the committee.

In addition to the above-mentioned members, the following guest speakers were invited at the Working Group meetings to exchange opinions.

1st meeting January 18, 2019	NAGATA Aya, Deputy Director for Environmental Finance and Economy Division, Ministry of the Environment KATO Hirotsugu, CDO, Senior Executive Officer, Marui Group
2nd meeting February 14, 2019	TERAMI Kosei, Senior Client Relations Manager, IFC Asset Management
4th meeting April 15, 2019	AKIMARU Kiyotaka, Management Planning Team, General Affairs Bureau, Hiroshima Prefecture Government
5th meeting May 8, 2019	IGARASHI Takeshi, Former Chief Office for Utilization of Dormant Deposits, Cabinet Office

Type II Financial Instruments Firms Association (TIIFIFA) is an association functioning as a self-regulatory organization (SRO) for firms operating financial instruments such as funds and trust beneficiary rights. Its legal status is as a Financial Instruments Firms Association authorized by the Prime Minister, pursuant to Article 78 of the Financial Instruments and Exchange Act (FIEA). As of Dec. 2019, TIIFIFA comprises about 550 members consisting of securities firms, banks, real estate companies and other institutions.

Chapter 1 Purpose and Background

1-1 Purpose

To further raise awareness of the SDGs, we introduce general information on the SDGs and initiatives in the financial industry and regular members, and make proposals on issues and measures to promote the SDGs within the Type II Financial Instruments Business.

1-2 Background

About the SDGs

- **What are the SDGs?**

The SDGs (Sustainable Development Goals) refer to international development and sustainability goals and targets which are aimed to be met by 2030, described in The 2030 Agenda for Sustainable Development adopted at the United Nations Summit in September 2015. The global challenges that must be resolved to realize a sustainable world consist of 17 comprehensive goals and 169 targets based on the three areas of "economy", "society" and "environment". In order to promote the SDGs, it is essential to realize a society in which these three fields are balanced. In other words, efforts must be made to create a fair society and reduce the environmental impact while proceeding with economic development.

The SDGs were formulated against the backdrop of heightened concerns over the sustainability of society and the economy. These environmental, social and economic concerns are a result of various threats such as climate change, disparity which has emerged as a side effect of the expansion of the global economy, and population growth. In the 1960s, the importance of environmental constraints were called upon. In 2000, the United Nations adopted the Millennium Development Goals (MDGs), a common set of targets to be achieved by 2015, calling for the eradication of poverty and hunger as well as environmental sustainability. As a successor to the MDGs, the SDGs were adopted with the aim of achieving sustainable development from multiple aspects.

[Goals of SDGs17]

Goal 1:	End poverty in all its forms everywhere
Goal 2:	End hunger, achieve food stability and improved nutrition and promote sustainable agriculture
Goal 3:	Ensure healthy lives and promote well-being for all at all ages
Goal 4:	Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all
Goal 5:	Achieve gender equality and empower all women and girls
Goal 6:	Ensure availability and sustainable management of water and sanitation for all
Goal 7:	Ensure access to affordable, reliable, sustainable and modern energy for all
Goal 8:	Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
Goal 9:	Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
Goal 10:	Reduce inequality within and among countries
Goal 11:	Make cities and human settlements inclusive, safe, resilient and sustainable
Goal 12:	Ensure sustainable consumption and production patterns
Goal 13:	Take urgent action to combat climate change and its impacts
Goal 14:	Conserve and sustainably use the oceans, seas and marine resources for sustainable development
Goal 15:	Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss
Goal 16:	Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels
Goal 17:	Strengthen the means of implementation and revitalize the global partnership for sustainable development

Source: Compiled based on the United Nations Development Programme (UNDP) website

- **SDGs and Enhancement of Corporate Value**

In order to solve the SDG's wide-ranging issues in an integrated manner, it is believed that we cannot simply rely on civil society such as governments and NGO/NPO who have traditionally been responsible for resolving social issues. Instead, the response of companies, which play a central role in economic activities, is understood to be essential.

As part of corporate philanthropy, companies have provided efforts to return a portion of their profits to society in order to address social issues. From around the 2000s, the concept of "Corporate Social Responsibility (CSR)", which states that "companies should actively fulfill their responsibilities to society and the environment through their own business activities" has spread. However, in order for a corporation to have a larger impact on society, the management concept of CSV (Creating Shared Value) has emerged, which suggests that profit-making whilst solving social issues during the business activity itself has become necessary. Methods for realizing CSV include developing products and services and business models that resolve social issues, forming rules that create markets, cultivating markets through solving social issues, and strengthening value chains through human resource development.

For the SDGs, companies are expected to be engaged not only by methods of CSR but also CSV-based thinking. Recently, it is believed that having high sensitivity towards understanding and responding to the demands of society such as the SDGs will lead to 1. seizing long-term opportunities, 2. reducing risks, and 3. strengthening competitiveness through ensuring and maintaining human resources, which will lead to the enhancement of corporate value.

"1. Seizing long-term opportunities" is related to many business opportunities, as is estimated that the SDGs will generate markets worth US$12 trillion annually. By comparing the SDGs with the businesses' strengths, new businesses can be thought of. Businesses that contribute to the SDGs can be easily supported by policies, and by considering the SDGs, they can turn their attention from short-term to a long-term perspective, stretch their thinking, and increase the likelihood of innovation. In addition, the importance of contributing to the SDGs enables open innovation involving diverse stakeholders.

"2. Reducing risk" refers to how companies are facing severe scrutiny from various stakeholders, including NGOs, amid growing concerns about social issues surrounding corporate activities such as environmental degradation and infringement of human rights. Proper responses to the SDGs are expected to reduce these risks. In addition, attention is being paid to risks such as natural disaster risks caused by climate change, regulations for low carbon, increase of raw material costs, and the emergence of new technologies that may affect businesses.

"3. Strengthening competitiveness" focuses on how the current young generation, such as the Millennial generation (the generation born in the mid-1980s and early 2000) and the Z generation (the generation following the Millennial generation), are highly conscious of contributing to society and motivated to contribute to SDGs through work. For this reason, committing to the SDGs will be advantageous in terms of bringing in and securing human resources. For the company to declare this purpose, employees may find a significance in their day-to-day work resulting in stimulation of the organization. This change in awareness among the younger generations has led to the creation of the SDGs market.

Comment at the SDGs Promotion Working Group Meeting

In response to social demands such as the SDGs, the Marui Group's concept of "inclusion that provides services to all people, regardless of income or generation" has received strong support from the Millennial generation.

(Mr. Kato, CDO, Senior Executive Officer, Marui Group)

SDGs and Finance

- **Role of the Financial Sector**

Meeting the SDGs will require between $90 trillion and $120 trillion in expenditures by 2030, and public finance alone will not be able to meet the enormous demand for funds. Therefore, the financial sector has a major role to play. The financial sector plays a broad role, including expanding financial activities and services for individuals, small and medium-sized enterprises, and governments (financial inclusion); investing, insuring and financing on themes (or encompassing multiple themes) such as the environment, agriculture, infrastructure, and health care; establishing appropriate management standards and policies to facilitate the implementation of ESG by investee companies; and adopting risk frameworks. In order to fulfill these roles, the association provides financial instruments that contribute to resolving social issues, such as socially responsible investment (SRI), ESG investment based on the United Nations Principles for Responsible Investment (PRI), and impact investment, etc.

However, further efforts are required to meeting the SDGs. While diversifying investment targets, investors, and financing methods, it is expected that the financial sector will transform into spanning all sectors of the economy, promoting the SDGs and its efforts in a variety of fields.

The principles and initiatives that summarize and facilitate how the financial sector contributes to sustainable development will serve as a reference for considering the SDGs initiatives expected from the financial sector.

[Principles and Initiatives Related to Financial Services that Contribute to the SDGs]

- **The United Nations Principles for Responsible Investment (PRI):** A global guideline for reflecting ESG issues in the decision-making process of institutional investors, based on the premise that ESG factors lead to improved investment performance.
- **United Nations Principles for Responsible Banking (PRBs):** a set of guidelines designed to align banking operations with the SDGs and the social goals set out in the Paris Agreement, which can be said to be the PRI for banking operations.
- **Equator Principles:** Risk management framework for the identification, evaluation and management of environmental and social risks in Project United Nations loans.
- **Green Bond Principles:** Guidelines for issuing green bonds that promote market credibility by promoting transparency and reporting of green bonds.
- **Sustainable Stock Exchange Initiative (SSE):** A platform where stock exchanges collaborate with investors, regulators, and companies to improve corporate transparency and performance on ESG issues and encourage sustainable investment.
- **Principle for Sustainable Insurance (PSI):** A Framework for the insurance industry to address ESG risks and opportunities

Comment at the SDGs Promotion Working Group meeting

There are many gaps in achieving the SDGs, and the financial sector plays an important role in closing the gaps. In addition to promoting investment in ESG-conscious companies, there is also a need to invest in businesses that resolve social issues. If the social challenges are the gaps in achieving the SDGs, then financing methods, investments, and investors should be more diverse than ever. The Type II Financial Instruments Business is and should be the main body that can compensate for this diversity. In the Japanese market, there is a large number of individual investors, and the process in gaining their empathy is crucial itself to working towards meeting the SDGs. Promoting initiatives to achieve the SDGs will not only help resolve social issues, but also become an opportunity to raise corporate value as a financial institution.

(Mr. Komatsu, President/CEO, Music Securities, Inc.)

- **Financial Methods that Contribute to the Achievement of the SDGs**

・ **ESG Investment**

ESG investment refers not only to conventional financial information but also to investment decisions that take into account non-financial information such as E: Environment, S: Social, and G: Governance. The publication of the United Nations Principles for Responsible Investment (PRI) in 2016 has spread the idea to investors that investments in companies that address environmental and social issues will contribute to long-term investment returns. As a result, ESG investment is spreading, which not only focuses on short-term corporate performance and market trends but highlights future prospects of a company through its risk management ability. This emphasis on the latter point which has not been emphasized in the past evaluates value from the viewpoint of a company's long-term management ability. "Reduction of carbon dioxide emissions" for E (environment), "reduction of environmental pollution" and "use of renewable energy" for S (social), "contribution to local activities", "improvement of working environment", "promotion of women's empowerment" and in the corporate governance field, "implementation of management to prevent bad practices while generating revenues" are the standards for selection.

Over the two years from 2016 to 2018, global ESG investment increased by 34%, and in 2018, ESG investment totaled $30.7 trillion worldwide, accounting for one-quarter of global investment. In Japan, ESG investment began to expand following the signing of the PRI by the Japanese Government Pension Investment Fund (GPIF) in 2015. The balance of investment in ESG, which was 3.4% in 2016, jumped to 18.3% ($2.2 trillion) in 2018.

GSIA (Global Sustainable Investment Alliance), an international organization that gathers statistics on global ESG investment, classifies ESG investment into the following seven categories.

Chart 1 【Classification of ESG Investments】

Investment Method	Overview
Negative Screening	Method of excluding companies with investments in sectors that do not meet ESG standards, such as specific sector in weapons, gambling, tobacco, and fossil fuels, etc.
Positive Screening	Method of investing in companies with the highest ESG-relevant evaluations in a similar industry
International Norm Screening	Method of excluding companies that do not meet international standards in the ESG field from the list of companies in which they invest
ESG Integration	Method of selecting investment targets by analyzing and evaluating not only financial information but also ESG information
Sustainability Theme Investment	Method of investing in sustainability themes and assets
Impact/Community Investment	Method of investing in companies that contribute to resolve social and environmental problems
Engagement/Investor Behavior	Method of investment as a shareholder to encourage companies to actively engage in ESG-related projects

Source: Compiled based on GSIA "2018 Global Sustainable Investment Review"※3

The three areas of ESG investment are closely related to the SDGs goals, and the expansion of ESG investment is expected to contribute to the achievement of the SDGs. If ESG investments become popular and financial flows to sustainable industries, companies, and businesses accelerate, there will be a good cycle in which companies develop more sustainable business models. SDGs can also be used as a common-language tool used in dialogues with investors to enhance corporate value. Conversely, if companies are unable to respond appropriately to social issues, the consequences such as bad ESG scores can be a constraint on their financing. Now that companies' quality of ESG disclosure is directly related to its financing, companies need to grasp the preconditioned relationship with the environment and society that are underpinning corporate activities. They must show "whether the risks that may inhibit the business or business model are identified", "how to secure and strengthen management resources and intangible assets that support the competitive advantage of your business model, and how to manage the risk of losing them", etc. in policies and key performance indicators (KPIs) relative to management systems in place, expected to be shown in an integrated manner.

As stated in the "Fiduciary Duty in the 21st century" report issued by the UNEP Finance Initiative (UNEP FI), "It is against fiduciary responsibility not to consider long-term drivers of corporate value improvement such as environmental, social and corporate governance issues in investment practices", ESG considerations are now an indispensable perspective for investors. Similarly, companies are required to undergo major reforms to respond to the trend of ESG investment. Within this change, the preferred approach of investors or companies is the Stewardship Code and the Corporate Governance Code (collectively referred to as the double code), which was created in the UK in 2011 and adopted in Japan the following year. The double code is a set of principles that are not enforceable by law (principal-based approach) and may not be implemented, but in that case there is a requirement to explain the reason (comply or explain). Each principle is described in detail below.

- Stewardship Code: The code of conduct for institutional investors. It contributes to enhancing corporate value over the medium to long-term through dialogue with companies. This principle makes it possible for institutional investors to fulfill stewardship (fiduciary responsibility) through engagement in "purposeful dialogue" that will result in the eventual success of investee companies in a way that benefits the ultimate provider of capital. The Japanese Stewardship Code is called the "Principles of Responsible Institutional Investors", consisting of seven principles. Although it is not enforceable by law, there are now more than 200 fund managers and pension funds that endorse this Code.

[Japanese Stewardship Code]

Principle 1	A clear policy for fulfilling stewardship responsibilities should be formulated and published.
Principle 2	A clear policy on how to manage conflicts of interest that may occur during the process of fulfilling stewardship responsibilities shall be formulated and published.
Principle 3	For the sustainable growth of the investee company, it is necessary to accurately grasp the condition of the company in order to appropriately fulfill the stewardship responsibility.
Principle 4	Through constructive "purposeful dialogue" with investee companies, we should share awareness with investee companies and strive to improve problems.
Principle 5	Have a clear policy on the exercise of voting rights and the announcement of the results, and devise unique methods to contribute to the sustainable growth of investee companies.
Principle 6	Regularly report to customers and beneficiaries on how stewardship responsibilities are being fulfilled.
Principle 7	Based on a deep understanding of the investee company and its business environment, etc., it should have the ability to make appropriate decisions in dialogue with the company and stewardship activities.

- Corporate Governance Code: Guidance for corporate governance of listed companies. By making transparent, fair, prompt and resolute decisions in cooperation with our shareholders, customers, employees, local communities, and other stakeholders, achieve sustainable growth and increase corporate value over the medium to long-term. Formulated by the secretariat consisting of a meeting of experts headed by the Financial Services Agency and the Tokyo Stock Exchange (hereinafter referred to as "TSE"), it has been applied as part of the TSE's Securities Listing Regulations since June 2015. Therefore, listed companies are required to submit a corporate governance report to the TSE.

【Overview of the Corporate Governance Code】

Basic Principles

1. Rights and Equity of Shareholders

Listed companies shall ensure the rights and equality of shareholders.

2. Appropriate Cooperation with Stakeholders Excluding Shareholders

Listed companies should recognize that the sustainable growth of companies is the outcome of the contributions of stakeholders, including employees, customers, business partners, and local communities, and should strive to cooperate appropriately.

3. Information Disclosure

Listed companies should appropriately disclose information in accordance with laws and regulations, and should accurately provide information that is highly useful to users.

4. Responsibilities of the Board of Directors

The Board of Directors should fulfill the following roles and responsibilities in order to promote the sustainable growth of the Company and to improve profitability and capital efficiency.

(1) Show major directions for corporate strategy, etc.

(2) Develop an environment that supports appropriate risk-taking by management

(3) Conduct highly effective supervision from an independent and objective standpoint

5. Dialogue with Shareholders

Listed companies should engage in constructive dialogue with shareholders from the perspective of contributing to sustainable growth.

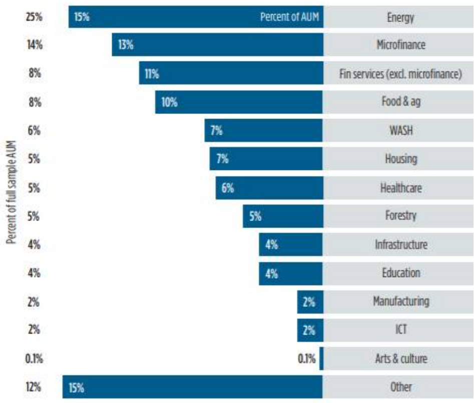
Source: Compiled based on the Financial Services Agency's “Follow-up Meeting on the Stewardship Code and the Corporate Governance Code” and “Financial System Council (Disclosure Working Group)”

- **Impact Investment**

Among ESG investments, impact investments have attracted attention in recent years. Impact investing is defined as investing in a company, organization, or fund that aims to generate social and environmental impacts in addition to economic returns. While conventional investments are evaluated in two dimensions of economic risk and return, they differ from conventional investments in that they are evaluated in three dimensions of risk, return and impact to answer the objective of creating social impact.

The amount of impact investment is increasing year by year, and drastic growth is expected to continue into the future. There are 181 impact investors and managers registered with Global Impact Investing Network (GIIN), one of the world's largest networks of impact investors. The current balance of assets under management is USD 502 billion (as of the end of fiscal 2018), which has more than doubled compared to the previous fiscal year, and is expected to reach USD 10 trillion by 2050. The scale of the investment market in Japan is estimated to be 71.8 billion yen, which is more than double that of the preceding fiscal year. The increase is attributable to the increased responsibilities of private companies to resolve social issues and the growing demand for funding from the financial sector for businesses that resolve social issues.

Chart 2 【Investment Assets under Management by Sector】



Source: Compiled based on GIIN "Annual Impact Investor Survey 2019"

Impact funds are attracting attention as a method of impact investment. Impact funds seek investment from individual investors, institutional investors, funds, etc., and manage the funds to obtain both economic returns and social impact. Fund-based private debt and fixed-income securities accounted for 34% of total impact investment assets, increasing 15% between 2012 and 2015.

Impact funds contribute to the achievement of SDGs in that they invest for social impacts. GIIN impact investors report that the main sectors of investment are in microfinance and other financial services, energy, and food and agriculture.

[Example of Impact Fund]: SunFunder (US)

SunFunder aims to provide universal access to energy and mitigate the environmental impacts of existing energy use by raising funds from institutional and other accreditation investors and investing in the solar power sector. They are making the most investments (totaling more than $100 million) in the sector, working with global investment institutions such as OPIC and Calvert Impact Capital.

The issue that SunFunder is trying to solve is the lack of funds for photovoltaic (PV) power generation companies targeting off-grid communities. This problem has been solved through the good use of blended finance. The fund creates a tranche that meets the inherent needs of different types of investors in order to successfully link off-grid PV companies to investors. It succeeded in involving less risk-tolerant public funds by soliciting investments from high-risk private investors and foundations. Thus, this contributes to achieving Goal 7 (Ensure access to affordable, reliable, sustainable and modern energy for all) of the SDGs.

【Outline of Beyond the Grid Fund in SunFunder】

Assets under management	$47 million
Geographical focus	Sub-Saharan Africa, India, and the Pacific region
Investment period	5 years
Impact focus	Financing the deployment of solar energy technologies in off-grid and power-scarce communities to help reduce CO2 emissions.
SDGs Goals	#7: Affordable, clean energy #8: Job satisfaction and economic growth #11: Sustainable cities and communities #13: Climate Change Measures #17: Partnership for goals
Tranche	1. Preferred equity claims (development finance institutions and individual investors) 2. Mezzanine bonds (foundations, high net worth individuals, retail investors) 3. Subordinated bonds (foundations and individual investors)
Underlying asset	Financing for solar power generation companies
Expected return	4-7%

Source: Compiled based on GIIN "Sunfunder Beyond the Grid Fund"

Comment at the SDGs Promotion Working Group meeting

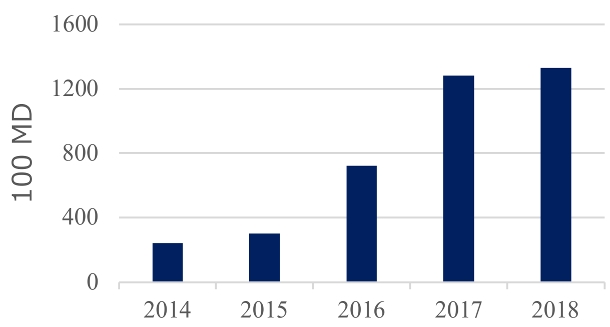
Financial leadership in mainstream ESG financial (environmental, social, and corporate governance-oriented finance) is strongly called into question, with a view to transition to a low-carbon society and the creation of a sustainable economic society that embodies the SDGs. At present, Japan's share of ESG investment in total investment balance is only about 2% as of 2016 (about 7% as of 2018). However, in order to achieve the 2 degrees Celsius target, it will be necessary to rapidly expand and take root ESG finance as a core business of financial institutions, since it will be necessary to invest an enormous amount of private funds for this target. The Ministry of the Environment is promoting the expansion of the green bond market through the Green Bond Issue Promotion System and other programs. The Ministry is also promoting the provision of an environmental information disclosure system that promotes environmental information disclosure in order to promote dialogue between investors and companies and make mainstream the flow of funds in consideration of ESG. In addition, in order to support ESG regional finance such as ESG financing, which takes into account ESG factors undertaken by regional financial institutions in their business feasibility assessments, ESG regional finance promotion projects and interest subsidy projects are being carried out. The Ministry also supports regional low-carbon projects through investment in the Green Fund.

(Ms. Nagata, Deputy Director for Environmental Finance and Economy Division,
Ministry of the Environment)

- **Green Bond**

Another focus of ESG-related investments for achieving the SDGs is Green Bonds. Bonds are issued by the government, local governments, business corporations, or financial institutions to raise funds from multiple investors for business development and management. Bonds differ from stocks in that they have predetermined interest rates, maturity dates, and so on. Green bonds are bonds issued to finance projects in the SDGs aimed at resolving environmental issues. Its origins date back to 2008, when the World Bank issued its first bonds named "Green Bonds", and since then have been spreading mainly to European countries, the US, and China. In particular, it has made rapid progress since 2016 especially after the Paris Agreement.

Chart 3 [Amount of Green Bond Issued]



Source: Compiled based on Climate Bonds Initiative "GREEN BONDS THE STATE OF THE MARKET 2018"

There is no international definition of what a green bond is, and it is up to the issuer to decide whether or not to use green bonds. As a result, there are fears of situations that could undermine investor confidence and cause a decline in the market, such as Good Wash, which does not actually contribute to the environment. Under such circumstances, the Green Bond Principles (GBP) was born in 2014 for the purpose of standardizing the definition of a green bond, and it is becoming the de facto standard in the green bond market. The GBP is operated by the Institute of International Capital Markets (ICMA) and sets forth rules for designating the GBP as a Green Bond from four perspectives: ① the use of procured assets; ② the process of evaluating and selecting projects; ③ the management of funding; and ④ reporting.

[Green Bond Principles]

1. Use of funds	Indicate in the legal documents relating to securities that the funds raised will be used for green projects with environmental benefits. The effectiveness of the project will be evaluated by the issuer and shown quantitatively if possible.
2. Project evaluation and selection process	The issuer clearly communicates to investors the environmental objectives of the green bond and the process and criteria to determine that the project is eligible
3. Management of Financing	Money raised by green bonds is managed in a separate account, incorporated into a sub-portfolio, or otherwise tracked
4. Reporting	The issuer will disclose up-to-the-minute information on how the funds will be used in an easily accessible manner, and the information will be updated once a year until funding is allocated and disclosed as needed

Source: Compiled based on the "Green Bond Principles 2018 Voluntary Guidelines for the Issuance of Green Bonds" issued by the International Association of Capital Markets (ICMA)

The GBP provides the following examples of appropriate businesses for the use of funded assets. However, it does not limit its use to the following businesses.

[Qualified Green Project Business Segments]

- Renewable energy (including production, transmission, appliances and products)
- Energy efficiency
- Pollution prevention and control
- Environmentally sustainable management of living natural resources and land use
- Terrestrial and aquatic biodiversity
- Clean transportation
- Sustainable water and wastewater management
- Climate change adaptation
- Eco-efficient and/or circular economy adapted products, production technologies
- Green buildings

Source: Compiled based on the "Green Bond Principles 2018 Voluntary Guidelines for the Issuance of Green Bonds" issued by the International Association of Capital Markets (ICMA)

To demonstrate compliance with the provisions of these GBPs, ICMA recommends that the issuer be approved by a third party.

Climate Bonds Initiative (CBI), a NPO in the United Kingdom, has established the Climate Bonds Standards (CBS) as a standard for green bonds based on the requirements of the GBP, and has gained increasing influence in recent years. The CBS focuses on resolving climate change among environmental issues, and aims to standardize bonds that contribute to the achievement of the Paris Agreement's 2°C target. This is directly linked to SDGs' goal 13 (specifically addressing climate change). In addition to the requirement to comply with the GBP mentioned above, the CBS sets its own standards for each issuer's industry and grants certification to bonds that are determined to comply with these requirements.

Through green bonds, issuers can publicly demonstrate their environmental efforts and enjoy the benefits of diversifying their investor base. On the other hand, there are disadvantages to incurring additional review and reporting costs associated with the adoption of the GBP.

[Example of Green Bond] New York Metropolitan Transport Authority (MTA)

One example of the active use of green bonds is the New York Metropolitan Transport Authority (MTA). MTA is the largest U.S. transport company under New York state law and developments and operates public transport systems such as subways, buses and railways in the New York metropolitan area, serving as many as 8.8 million people a day. MTA became the first U.S. municipal bond issuer to issue a CBS-certified green bond in 2016. The issue is a US$782 million Green Bond, which has been issued several times since then. As of July 2019, the total amount of the issue amounted to approximately US$6.3 billion. Funds raised through green bonds are used to develop electric railways and supporting infrastructures, and the expansion of public transport is expected to reduce CO2 in New York City. In recent years, railway and transportation corporations in Los Angeles and San Francisco have also been working on issuing green bonds related to low-carbon transportation, and it is believed that the examples of MTAs are used as reference.

- **Social Impact Bond (SIB)**

Social impact bonds (SIBs) also exist as a typical financial method that contributes to the achievement of the SDGs. The term "Pay for Success" refers to projects that involve multiple stakeholders from both the public and private sectors working together to resolve social issues, although bonds are included in the name, bonds are not issued. The basic structure is as follows.

1. All stakeholders sign the SIB contract.
2. Intermediate support organizations collect funds from private investors.
3. Private corporations and non-profit organizations use funds for administrative services.
4. Evaluators and evaluation verifiers confirm the outcome index and check whether the administrative services have achieved the results previously determined in the contract.
5. Where contract outcomes (outcomes) are met, the payer (often the government or the municipality) pays incentive fees.
6. Success fees are passed on to investors through an interim support organization.

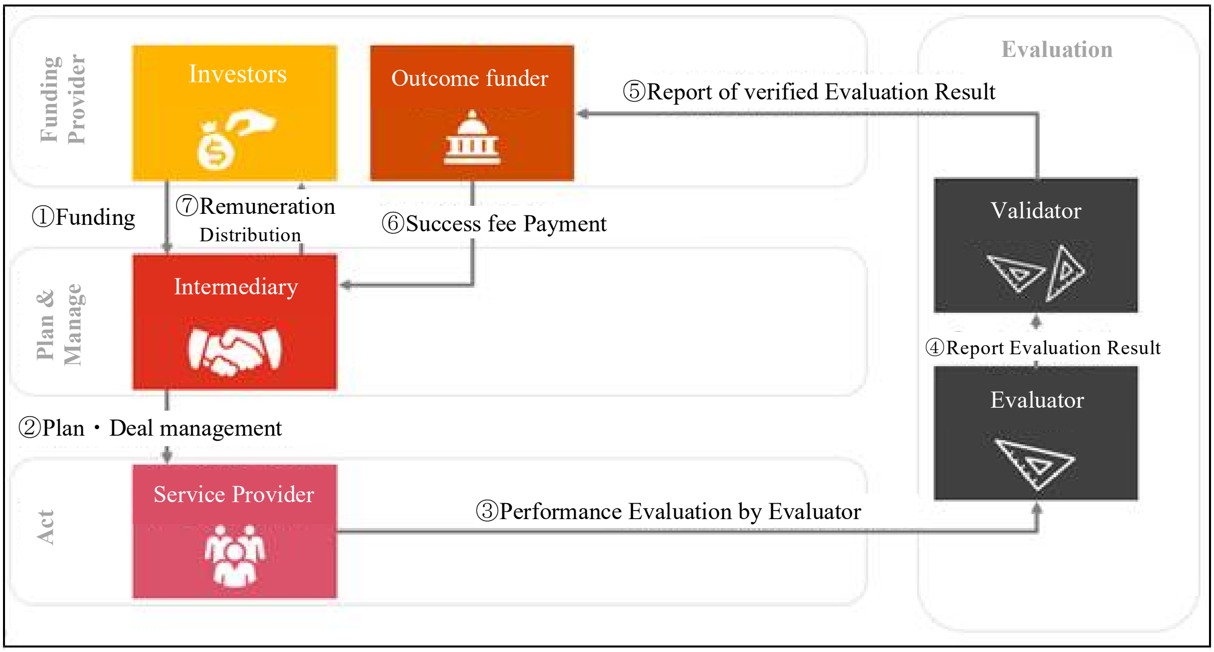
As a result, if the project succeeds, the investor receives an interest rate on the amount invested, as in conventional bonds, and also a contingency fee, depending on the contract. The government and municipalities that pay the fees can reduce administrative and social costs. The Green Bonds differ from the above-mentioned Green Bonds, which are fundraising mechanisms centered on bonds, in the following respects.

Difference from green bonds:

- The outcome of government services, and the outcome index, can directly change interest rates (with some fixed-rate SIBs).
- If the project is successful, not only the interest rate but also the incentive fee will be paid to the investor.
  - The success and impact of the project has a major impact on all stakeholders.
  - Period is basically about 3-7 years since the deadline for measuring outcomes has been set.
- Many focus on social issues as well as environmental issues. In the US in particular, there are many projects aimed at preventing repeat crimes and educating low-income groups.

Relationships with entities involved in SIBs are as follows.

Chart 4



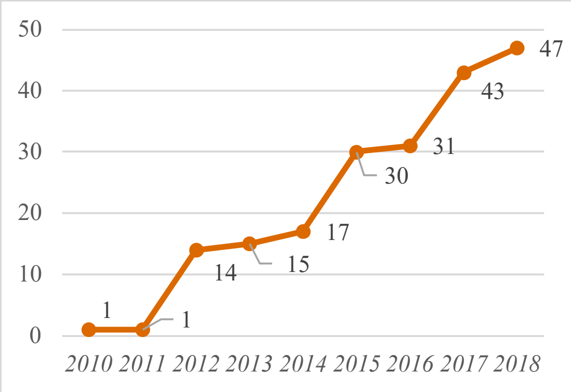
Source: Compiled based on the detailed information of KINGS of BR and other projects

Explanation of each actor

- Compensation payer: Repayment begins when the project outcome index is deemed contractually successful. Basically, it is a government-related organization or local government.
- Investor: Invest funds in the project. As a return, depending on the contract, you will receive a fixed interest rate or a floating interest rate system based on an outcome index + success fee. Some projects are separated from senior investors and junior investors, with different interest rates and returns.
- Other Supporters: Provide grants, deferred funds, and guarantee deposits separately from investors. Recoverable grants. Some are irrecoverable and the former are repaid upon success of the project.
- Interim Support Organizations: Connects investors and service providers and is involved in project planning. Receive rewards first from payers and distribute to investors.
- Service Provider: Providing social services and providing data related to service prospects and results.
- Evaluator: Calculate an outcome index to evaluate project success.
- Evaluation verifier: Validate the assessor's outcome index.
- Legal Adviser: Represent the interests of the various factors involved in the contract, while advising on the design of the contract.
- Technical Assistants: supplement and advice on expertise lacking in project design and strengthening.

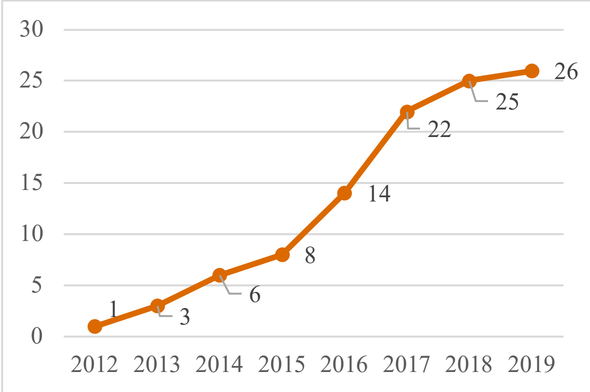
SIBs started in the UK in 2010, and they are spreading mainly in Europe and the US. From 2012 till today, 26 SIB projects (25 of which are in progress and one completed) have been launched in the US, of which approximately 70% are small-scale projects worth less than US$10 million.

Chart 5 [Accumulated number of SIBs in the United Kingdom]



Source: Compiled based on "Non Profit Fund" materials

Chart 6 [Cumulative number of SIBs in the US]



Source: Complied based on Social Finance "Impact Bond Global Database"

In the US, a system to further support the SIB has been established. The Social Impact Partnership to Pay for Results Act (SIPPRA), which was established in 2018, is a system designed to improve the lives of families and individuals. Added to the federal government only if a pre-determined outcome has been verified by an independent evaluator against a "pay for results partnership" implemented by the state and local governments.

Comment at the SDGs Promotion Working Group meeting

It is also possible to create funds specializing in social problem-solving businesses, such as domestic ventures, SIBs, and developing countries that are difficult to flow funds into. For example, there may be support for new attempts to procure individual money in the Type II Financial Instruments Business, or for CSR in the financial industry in large amounts, but there may be some areas where it is not being utilized well, so there may be ideas to try such things together, such as using them as seed money.

(Ms. Isogai, Partner, PricewaterhouseCoopers Sustainability LLC)

For the first time in Japan, Hiroshima Prefecture has been collaborating with six cities on a wide-area basis to commercialize the recommendation for individual medical examinations for colorectal cancer using a social impact bond (SIB) that combines funds raised through crowdfunding with funds from foundations and banks. This system uses the number of people receiving primary examinations and the percentage of people receiving precision examinations as outcome indicators, and links the rate of cancer discovery with the improvement in the percentage of people receiving cancer examinations, so that local governments pay success fees. If cancer can be detected early, medical costs will be reduced accordingly. A mechanism for generating economic returns by preventing future costs and returning them to investors.

Chapter 2 Organizing and Proposing Issues and Solution Policies for Promoting SDGs

The Japanese financial industry, including the Japan Securities Dealers Association, the Japan Exchange Group, and the Japanese Bankers Association, is conducting studies and initiatives to contribute to SDGs. The Type II Financial Instruments Firms Association (hereinafter referred to as the "TIIFIFA") is a group of members that handles everything from small funds to large-scale funds and serves a wide range of customers, from individual investors to large-scale financial institutions. Therefore, it is considered that it plays a significant role in promoting the SDGs.

In response, the SDGs Promotion Working Group was established in anticipation that efforts to achieve SDGs from the viewpoint of the two industries would help resolve social issues and raise the value of financial institutions such as Type II Financial Instruments Business Operators. Through six discussions, the Working Group discussed issues and solutions related to the promotion of SDGs. This report summarizes the current issues not only within the framework of TIIFIFA but also the current issues based on the outcomes of deliberations by the Working Group, reports on the recommendations made by TIIFIFA, regular members and issues faced by other stakeholders.

2-1 Scope of Consideration

In order to promote SDGs' initiatives, it is essential that funds flow to activities that resolve various social issues over the long term and raise corporate value. In other words, activities in fields where both economic returns and social returns are expected to come simultaneously. However, there is a situation in which, for some reason, efforts in such areas are not progressing or are being made, but funds are not coming in. We will focus on the “immature/malfunctioning of the market” as a factor that cannot be explained simply by focusing on “economic returns” and “social returns”. “Market immaturity/malfunctioning” refers to the environment in which a business is implemented, in contrast to “economic return” and “social return” refers to the economic and social benefits resulting from the implementation of the business.

In addition to the traditional emphasis on economic return and social return, we would like to examine how to identify challenges and solve them by reviewing the relationship between the new “market immaturity/malfunctioning” perspective.

Chart 7 shows the visualization of patterns in the eight areas divided into “high” and “low” (see Chart 8 for the characteristics of each of the eight areas). While there are some categories in which private companies can conduct business independently (1.4) and other areas not covered by the activities (7.8), when SDGs promotion in the private sector is envisaged in light of the purpose of the Working Group, the areas to be focused on are the following two areas.

[Area 1] Areas where economic and social returns are high but private sector activities are not sufficient

In this area, both “economic return” and “social return” should be high, but due to the high level of “immature/malfunctioning of the market”, the activities of private enterprises and financial institutions are not sufficient. The “immaturity/malfunctioning of the market” may be caused by information disparities and actual risks, and the implementation and investment of businesses may not advance. In order to resolve this problem, public funds could be used to raise awareness of the elimination of the information gap and to resolve the risk and financial shortage at the initial stage. More specific details of the current situation and policies for resolving the problem will be described in the “Challenges and Recommendations” section of the next section.

If we can resolve issues that cause “immaturity/malfunctioning of markets”, we expect to see significant progress in the promotion of the SDGs. Therefore, this area will be covered by this recommendation.

[Area 5] Social returns are high, but due to various factors, economic returns are currently low, so private sector activities are inadequate.

Area 5 does not seem to be included in the scope of activities by private companies and financial institutions, because it does not seem likely to generate economic returns at first glance. Region 5, however, can be divided into two categories: “cases in which economic returns can be secured by removing market constraints” and “cases in which economic returns cannot be secured by removing market constraints”. In the former case, both economic return and social return can be pursued if the impediments are eliminated and only if the “economic return” can be secured autonomously.

Businesses that fall under the first category include sustainable, costly agricultural, climate change-related businesses, and business building in war-torn areas. In addition, the direction for removing "immature/malfunctioning of the market" may include support from public institutions, such as the implementation of tax systems and grants. Therefore, we will consider the actual situation of more specific "market immaturity/malfunctioning" and the direction for resolving it, as in Area 1, based on the assumption that "market immaturity/malfunctioning" can be eliminated and "economic return" and "social return" can be secured.

Chart 7 [Area Classification of Social Issue-Resolving Businesses]

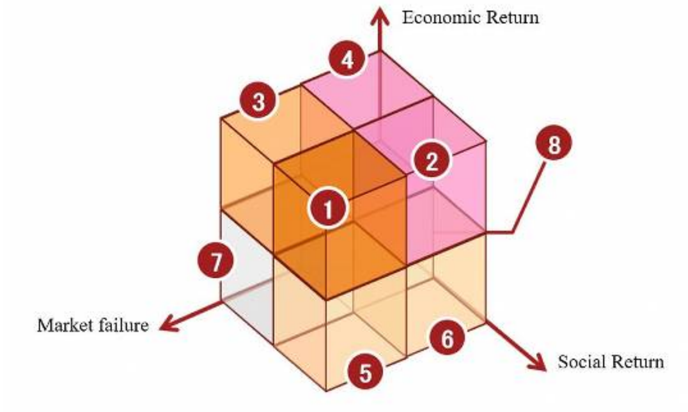


Chart 8 [Overview of Area Classification of Social Issue-Resolving Businesses]

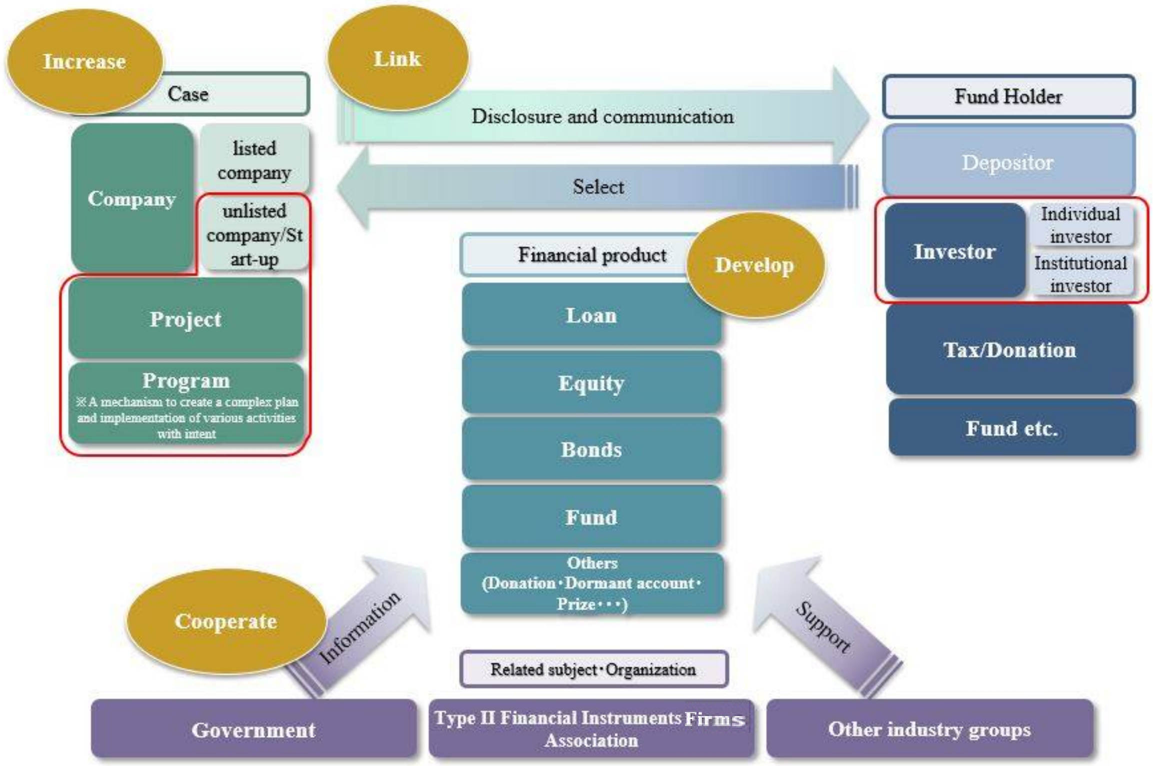
Area	Economic Return	Social Return	immature/malfunctioning of the market	Outline
1	High	High	High	Areas where financial and social returns are high, but financial institutions have insufficient activities due to high perceivable risks and information gaps
2	High	High	Low	Areas where financial institutions can independently carry out business
3	High	Low	High	Areas where the economic return is high, but the market is immature / highly dysfunctional and the financial institutions are not sufficiently active
4	High	Low	Low	Areas where financial institutions can independently carry out business
5	Low	High	High	Areas where financial institutions are inactive, although social returns are high, but due to various risk factors, information gaps, and external uneconomical factors, economic returns are currently low
6	Low	High	Low	Areas that are outside economic activities because they do not generate economic returns but require social activities to generate social value
7	Low	Low	High	Areas where economic and social returns are low, and economic and social activities are not meaningful
8	Low	Low	Low	Areas where economic and social returns are low, and economic and social activities are not meaningful

Source: Compiled based on "Basic Survey on Evaluations and Financing Methods for Improving the Development Effectiveness of BOP Businesses" (2013) Japan International Cooperation Agency (JICA), Aarata & Co., ARUN Godo Kaisha, Ltd.

2-2: Organizing issues and directions for resolving them

This chapter summarizes issues in promoting SDGs' initiatives from four perspectives. To promote SDGs efforts, companies, investors, financial institutions, government agencies, and business associations must cooperate to increase the number of projects and providers of funding, to bridge projects and funding, and to develop new financial products that overcome the risks and challenges specific to SDGs investment and financing. The Working Group explored the challenges from these four perspectives and confirmed the direction toward their resolution. Based on the outcomes, the main objective of this paper is to sort out the "Recommendations".

Chart 9 [Points for Recommendations-Relationships between SDGs' Initiatives and Financial]



Four Different Perspectives and Challenges for SDGs Promotion

I. **Increase** the number of SDGs Investment and loan targets

The entities implementing SDGs' initiatives fall into three categories: companies, projects, and programs. Enterprises are expected to promote SDGs through the incorporation of SDGs in management strategies and socially responsible initiatives within the company. In response to the current situation in which increasing such enterprises is not making progress, it is necessary to grasp and resolve the factors that are hindering such enterprises. Companies differ and have various forms, such as not only listed companies, but also unlisted large enterprises, SMEs and startups, and the bottlenecks they face differ. Therefore, it is necessary to recognize and resolve issues according to their form.

Enterprises are not the sole driving force behind the promotion of SDGs. A variety of entities, including local governments and non-profit organizations, have organized project programs. Increasing the number of such project programs is also an important part of corporate transformation.

From the position of the two industries, it is expected to be a great deal to encourage the originating entities that do not include listed enterprises to increase. This is because, while listed companies have already developed certain schemes and are beginning to implement advanced initiatives, they are expected to promote SDGs through more comprehensive entities by utilizing these schemes and cases in small-scale stakeholders and projects in the business areas of the Type II Financial Instruments Business.

II. **Link** the projects and the fund holders

Even if the number of projects increases, SDGs' efforts will not develop unless there are funds to promote and expand projects. Therefore, it is necessary to secure the supply of funds and expand the number of projects by linking the projects with the fund holders. For this purpose, it is important to make public disclosure and communication of SDGs related matters, and to match the project and the fund holder possible by the fund holder choosing the investee based on the information. It is necessary to recognize and resolve issues that may cause this matching to not function properly.

Fund holders are assumed to be mainly depositors, investors, tax donations, and foundations. In particular, from the position of the Type II Financial Instruments sectors, which are industry associations for investment institutions, it is expected to encourage projects to be linked to the entities from the perspective of investors.

III. **Develop** financial products relevant to the SDGs

When the project is linked to the fund holders, the next step is to develop financial products that will contribute to the promotion of the SDGs. Financial instruments include loans, equity, corporate bonds, funds, and other donations and dormant cashes. Financial instruments related to SDGs, unlike typical financial instruments, require the development of not only financial returns but also social returns, and the implementation of new schemes and assessment methods.

IV. SDGs investment promoters **Work Together**

The SDGs promotion efforts in Japan is still in its development stage, and external approaches are required for project proponents and fund holders to increase and expand SDGs projects. In particular, information provision, financial support, and other effective support for advancing the aforementioned “increase”, “connect” and “develop” are expected. Governments and industry associations are assumed to be the main actors of cooperation, and TIIFIFA also exist as one of the important actors. To ensure that this external approach works, it clarifies the current issues and policies for resolving them.

Comments at the SDGs Promotion Workgroup meeting

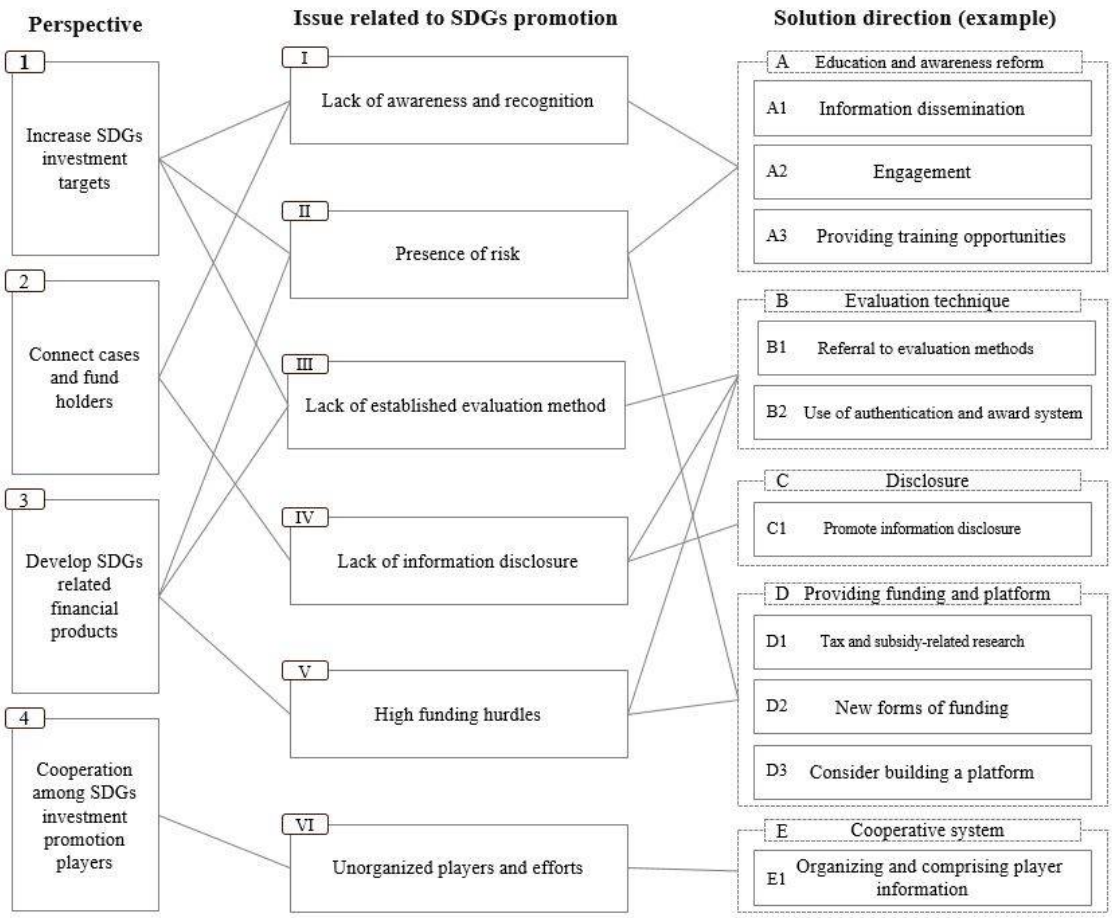
We would like to make use of various schemes in which players that promote investments that lead to SDGs, such as the Hiroshima Prefecture Social Impact Bond (SIB) project to encourage individual treatment for colorectal cancer examinations, cooperate.

(Mr. Akimaru, Management Planning Team, General Affairs Bureau, Hiroshima Prefecture Government)

Overview of issues and directions for resolving issues related to SDGs promotion (examples)

Based on discussions at the SDGs Promotion Working Group, the four perspectives described in the previous section were summarized as follows: issues that are currently hindering the promotion of SDGs, and examples of responses that could be considered as directions for resolving such issues. In order to organize the recommendations in the next section, we will first explain in detail the challenges and directions for resolving them.

Chart 10 [Overview of four perspectives and challenges for SDGs promotion and directions for resolving them (examples)]



Details of the issues

I. <u>Lack of awareness and recognition</u>

One of the major factors that hinder the promotion of SDGs investment and financing is the lack of awareness and awareness among corporations, fund providers, and financial intermediaries, including those in the Type II Financial Instruments Business, regarding the SDGs that “initiatives related to SDGs sustainability will lead to long-term returns and enhancement of corporate value”. As a result, there are situations where the number of investment projects is insufficient or where the necessary funds are not flowing in the area where the social and economic returns can be obtained.

II. <u>Presence of risk</u>

Risks hindering SDGs efforts can be divided into two categories. One is the risk arising from information disparities. For example, in the case of developing country-related investment, due to concerns about factors that cannot be recognized by the investor, the investor may be concerned about whether the price is appropriate or whether the return on the investment is expected. Therefore, the risk may be estimated higher than the actual situation despite the expected economic return.

Another risk is the risk that social problem-solving projects actually include. Social returns can make it difficult to earn economic returns relative to a typical business and, as a result, can increase the risk of returns.

From the viewpoint of companies, projects and programs, this is thought to be a factor that hinders the development of financial products from the viewpoint of fund holders.

III. Lack of an established evaluation method

Compared with economic returns, the methodology for assessing social returns is still in the process of being established, and both the originator and the fund holders are struggling to evaluate returns. Although various institutions have studied and published methods for assessing social returns, it is not well known and is unclear as to what can be done. From the perspective of “increasing”, the formation of new deals does not proceed due to the lack of clarity of returns, and from the perspective of “developing”, the fund holders are also suffering from the difficulty of product development.

IV. Lack of information disclosure

The lack of information disclosure from two perspectives has been pointed out as a factor that makes it difficult to link projects with fund holders. One is the lack of disclosure by companies/projects/programs when financiers find sources of funding. In particular, listed companies often include SDGs efforts in integrated reports and other investor reports, but unlisted companies and project program activities face the challenge of having no reports to disclose and lack of human capital and tools to do so. This point is pointed out not only for enterprises, but also for local governments that are working to promote SDGs.

Another perspective is the lack of disclosure by fund holders when firms/projects/programs identify fund holders. For example, European and U.S. financial institutions often clearly indicate their stance on ESG investment and impact investment in the form of responsible investment policies. Without such clear disclosure, however, it is difficult for the originator to identify the entities that will provide funds for their social problem-solving efforts.

V. High funding hurdles

There are two factors that raise the hurdles to financing social problem-solving projects. One is the small scale of the firm or project program. Because of their small size, the hurdle for fund holders to find deals is high, and there is also the problem of not being able to anticipate the return on investment in product development. Another factor is the long payback period. The longer the payback period due to low economic returns, the worse the terms are for investors and the more they avoid product development.

VI. Unorganized players and efforts

In order to promote SDGs efforts, various players have been studying, presenting, and supporting themselves. However, these efforts have not been organized or in collaboration with each other in the context of the optimization of the project and the oversaturation of similar initiatives. It does not allow stakeholders to know what information to collect and which players have strengths and features. In order to support the promotion of SDGs by projects and capital holders, stakeholders need to clarify their policies for SDGs activities and aim for conditions in which their respective strengths and characteristics can be identified.

Details of Direction of Solutions

A. Education and Awareness Reform

A1. Information Dissemination

For issues such as lack of awareness and awareness of the relationship between SDGs and improvement of corporate value and risks recognized by information gap, the government will facilitate awareness and correct recognition by providing guidance and compiling and providing best practices. Providing services to companies, projects, and programs is expected to increase the number of projects. By providing these services to investors and asset managers, it is expected to promote investment in businesses that solve social issues.

In addition to encouraging people to understand how to raise corporate value, it is also expected that the formation of businesses and promotion of investment will be further promoted by collecting and disseminating information on global trends in ESG/SDGs investment (including social problem-solving businesses and regulatory-related businesses).

A2. Engagement

From the position of investors and asset managers, collaborating with companies, projects and programs are done through engagement. In particular, by communicating the relevance of SDGs and enhancement of corporate value and the correct status of risks caused by the information gap, it is expected to improve awareness and awareness, and to encourage the increase and expansion of projects.

A3. Providing training opportunities

Providing educational opportunities for individual investors, especially those in the millennial generation who are highly conscious of contributing to social, about financial products and investment are essential. As more investors and asset managers are expected to play an active role in promoting SDGs initiatives, more and more individual investors are expected to be highly conscious. Large institutional investors in particular have some external pressures to promote SDGs /ESG efforts (e.g., NGO/NPO evaluations), but there is room to involve a wider variety of individual investors in order to expand.

Comments at the SDGs Promotion Working Group meeting

It is important to conduct educational activities for companies and investors to deepen their understanding of ESG investment.
It is important for companies to appropriately disclose to investors that they give due consideration to the environment, workers, and social (= ESG). To this activity, it is necessary to raise awareness of ESG information disclosure among corporations. On the other hand, because ESG is not an immediate effort, companies need to have in-depth dialogue with investors on ESG in order to gain their understanding.

(Mr. Shimizu, Head, Business Development Department, Equity Sales Group, Goldman Sachs Japan Co., Ltd.)

B. Valuation technique

B1. Referral to Evaluation Methods

A methodology for assessing the social return/impact of a project program is introduced. As explained in Challenge III, to address the current situation in which existing valuation methods are available but are not yet widely known, communicate to the enterprise/project program to encourage the origination of projects. It is also expected that the development of financial products will proceed through the dissemination of information to fund holders.

B2. Use of Authentication and Award System

By establishing a certification system that examines and guarantees the efforts being made to promote SDGs, the company aims to increase awareness of projects. Particularly for unlisted companies and small-scale project programs, disclosure is limited and the hurdles to linking the project with the fund holders are high. It is expected that the certification system will widely disseminate cases that are difficult to recognize under normal circumstances, and that the development of financial products will proceed.

In addition, the implementation of the award system is expected to resolve the challenge of insufficient disclosure, as is the case with the certification system, by identifying outstanding projects for the promotion of SDGs. In addition, in response to the high funding hurdles discussed in Challenge V, the Award System is expected to encourage fund raising by securing high-quality projects.

C. Disclosure

C1. Promote information disclosure

Information disclosure is encouraged in three main categories.

First is the disclosure of non-financial information such as ESG/SDGs by listed companies. Many companies have already begun disclosing information in integrated reports and sustainability reports. However, there is room for companies to sort out the key points for organizing and disclosing the relationship between corporate value creation and sustainability issues, and to disseminate the information through guidance and other means.

Second is the unlisted companies and local governments disclosing information. Since these entities do not disclose information to shareholders, such as integrated reports and various IR reports, disclosure is not particularly advanced at present. Accordingly, it is hoped that SMEs will encourage listed enterprises to follow the efforts of listed enterprises while demonstrating how they disclose non-financial information.

Third, investors and asset managers disclose information. As mentioned in Challenge IV, fund holders are also required to disclose their policies and practices to the ESG/ SDGs. It is necessary to encourage disclosure, such as establishing a responsible investment policy in line with the PRI.

D. Providing funding and platforms

D1. Tax and Subsidy-Related Research

Tax and grant support is desirable to resolve the risks inherent in the economic returns discussed in Challenge II and to resolve the high funding hurdles presented in Challenge V.

On the tax side, it is necessary to investigate and study the tax measures to contribute to the achievement of the SDGs.

With regard to grants, national and local governments have already introduced subsidies for initiatives that contribute to achieving the SDGs, and it is hoped that they will be utilized and expanded further. As explained at the beginning in Area 5 of the Extent of Consideration, when “market immaturity/malfunctioning” is high, economic returns are unlikely to materialize. Therefore, in order to get the project on track, it is thought that the support by the subsidy in the initial stage is effective.

D2. New forms of funding

Capturing capital from capital holders requires attracting new forms of investment, in addition to general ESG investment by institutional investors.

First, it is expected to attract risk money that contributes to the SDGs. Risk money often refers to investments in ventures and new businesses with high risk of loss of principal, but it is desirable to invest in innovation and new businesses that contribute to the SDGs under the same policy. If the attraction of risk money is facilitated, it can be expected that funds will be raised regardless of the risks listed in Challenge II.

Another noteworthy approach is blended finance. Blended finance involves attracting funds from low risk-tolerant investors by collecting and investing funds from investors who demand different returns. By developing this scheme in Japan, it is expected to promote investments in projects that contribute to SDGs.

Comments at the SDGs Promotion Working Group meeting

In the UK, various policies and institutions have been introduced to promote social finance. Another method is blended finance. Blended finance involves attracting funds from low risk-tolerant investors by collecting and investing funds from investors who demand different returns. The British government helped establish institutions for blended finance and capacity building of social enterprises. In addition, the Government of the United Kingdom provides information to promote understanding of social finance, collects and analyses case studies, and develops and provides evaluation tools.

(Mr. Igarashi, Chief Office for Utilization of Dormant Deposits, Cabinet Office <at that time>)

D3. Consider building a platform

By developing platforms for business design and business matching that contribute to SDGs, knowledge sharing and solutions to match players with each other will grow. If the originators match each other, they will be able to realize knowledge-sharing for collaboration and expansion of scale between different businesses, and if the matching of the project and the fund holders is realized, the development of financial products will proceed.3

E. Cooperative system

E1. Organizing and comprising player information

As shown in Effort VI, although various players and initiatives are moving toward SDGs promotion, the information is not organized and comprised. The first step is to organize player information so that each activity affects stakeholders and that information is exchanged in order to build a cooperative system.

2-3 Recommendations

Based on the issues mentioned above and the direction of solutions, this Working Group will sum up the recommendations for each of the following three stakeholders: ① Secretariat of TIIFIFA ; ② Members of TIIFIFA; and ③ Other Stakeholders. Proposals for specific initiatives to each entity will be organized by phase with the aim of developing initiatives in stages.

This Working Group expects that the Secretariat and members of TIIFIFA will take the following stances toward the promotion of the SDGs.

- Instead of responding passively to external environments and regulations, we will transform ourselves into a position to work proactively to promote SDGs, such as by supporting more projects and promotion links between projects and fund holders.
- Contribute to the creation of an ecosystem that facilitates innovation in the financial industry through collaboration with other players.[1]
- Contribute to the promotion of comprehensive SDGs for players by providing financial support that leverages the strengths of the Type II Financial Instruments Business

Comments at the SDGs Promotion Working Group meeting

It is now an opportunity for the Type II Financial Instruments Business.
Among institutional investors in particular, there is a growing awareness that they must sign the Principles for Responsible Investment and do something from the perspective of ESG lenses. However, as it has not yet been decided what ESG lenses should be emphasized, there is a feeling that it is easy to handle one of the global objectives and objectives of SDGs, and I think it is easy to use as a first step. While we are asked whether there are any investment strategies or products that relate to SDGs, one answer at that time is that while there are some products that involve SDGs through listed investments or stock indices, low-liquidity assets and investment strategies through real estate may contribute more directly to the achievement of SDGs. Since the current trend is to increase the proportion of investments in illiquid assets not only in traditional asset classes but also in low-liquidity assets in order to enhance the diversification effects of portfolios, the outlook is perfectly suited to the Type II Financial Instruments Business areas. I think this is a real opportunity because we have reached the point where there is nothing involved in the SDGs.

[1] A system mechanism that brings together a large number of diverse players, each possessing its own technologies, knowledge an d funds, and using them to form and develop a business. Originally, the word used to refer to the "ecosystem" of the natural world , but in the early 1990s it began to be used to describe the startups, the launch of new businesses, and the scaling -up of new businesses that had become active in Silicon Valley, and then became commonplace in areas such as general and innovation.

Comments at the SDGs Promotion Working Group meeting

I believe that TIIFIFA has a particular significance in utilizing its characteristics and, in a sense, undertaking initiatives that are differentiated from the initiatives of the Japan Securities Dealers Association. In particular, it is not financial products such as listed stocks and publicly offered corporate bonds, but it is the member's business to support the development and growth of middle-tier and emerging companies, such as Private Equity Fund for unlisted companies and Venture Capital Fund for startup companies, and there should be a large number of companies that resolve social issues. Understanding and encouraging these efforts, as well as publicity and playing-up alone, would seem to be of significance to TIIFIFA.

(Mr. Amma, Visiting Professor, Fukui Prefectural University)

Specific and diverse business creation for SDGs promotion is becoming active. However, there are many issues to be addressed. So can the Type II Financial Instruments Business provide value and turn it into one's own business? For example, many businesses pursuing social impact face challenges in terms of profitability and finance. In the Type II Financial Instruments Business with diverse financial players, these businesses should be involved from the business design stage in their areas of expertise, thereby contributing to the creation of business and financing schemes that accurately incorporate risk and return characteristics, as well as improved profitability.

In addition, the SDGs visibility of consumers has not yet increased sufficiently, and consumers tend to regard it as a far-reaching issue rather than their own. In changing this situation, the Type II Financial Instruments Business with diverse products and points of contact with customers have great potential. Moves toward achieving the SDGs will be further accelerated and expanded over the next 10 years until the SDGs target year. Active, deliberate, rather than passive, efforts should lead to the creation and acquisition of "new business opportunities" for members of TIIFIFA.

(Mr. Yoshida, Deputy General Manager, Corporate Research & Development,
Mitsubishi Research Institute, Inc.)

① Recommendation for TIIFIFA Secretariat

TIIFIFA encompass a wide range of industries, including financial instruments, banking, real estate, construction and leasing, and have diverse business sizes. Therefore, it can be inferred that there are considerable differences in the perceptions and responses of members to SDGs.

Accordingly, the secretariat of TIIFIFA should first strive to increase the visibility and understanding of members in order to realize the efforts to achieve the SDGs of members.

In the mid-long term, we would like to consider the following issues and hope to help members achieve their SDG goals.

The Japan Securities Dealers Association and other organizations are also actively promoting SDGs. In order for the secretariat of TIIFIFA to promote SDGs effectively and efficiently, it is desirable to consider cooperation and collaboration with these organizations.

Phase 1: Immediate actions

○ Implement SDGs visibility campaigns to raise the awareness and understanding of member companies' SDGs. (A1)

There is a possibility that the level of recognition and understanding of the improvement of SDGs and corporate value may not be sufficient among the members. The secretariat should also work on enlightenment activities for the promotion of SDGs by holding seminars and disseminating information through websites, while building partnerships with other organizations (including those foreign) that are involved in the promotion of social problem-solving investments.

- Distribute SDGs badges and related materials at representative training sessions and various training sessions.
- Hold SDGs awareness seminars for members.
- Set up a SDGs page on the website to disseminate various types of information.

○ Understand the actual status of member SDGs initiatives. (A1)

Currently, the secretariat does not keep track of member companies' SDGs initiatives. It is necessary to grasp the actual situation of the member's efforts, collect the data, and investigate and analyze the challenges for the SDGs promotion of the member. When conducting surveys, it is necessary to improve the response rate by obtaining the understanding and cooperation of members, avoid duplication with existing surveys, and devise the content of inquiries so that responses can be easily made according to the attributes of member companies.

- Understand the status of member SDGs efforts through questionnaires, etc.

Phase 2: Mid-to Long-term Initiatives

○ Present examples of member companies' efforts to realize SDGs, and provide information on evaluation methods and disclosure systems. (A1)

In addition to introducing examples of member companies' efforts to realize SDGs, it is necessary to provide information to members on methods for evaluating social returns/impacts and trends in the disclosure system regarding non-financial information.

- Introduce examples of member companies' efforts on the website and disseminate them to encourage the development of financial products and the origination of projects.
- Investigate and research trends in evaluation methods and disclosure systems, and work on disseminating information.

○ Provide learning opportunities to individual investors. (A3)

It is desirable to provide opportunities for private investors especially in the Millennial generation, who are said to be highly conscious of social contribution, to learn about financial products and investments related to ESG/SDGs.

・ Hold seminars for individual investors interested in crowdfunding.

○Research will be conducted on the tax system, grants, and new financing methods. (D1)

It is expected to conduct surveys and researches on the use and expansion of tax measures and grants for initiatives contributing to the achievement of the SDGs.

In addition, it is desirable to research trends in new financing methods, such as the use of blended financing, so that the Type II Financial Instruments Business can contribute to the promotion of SDGs.

・ Introduce case studies utilizing grants and promote their widespread use.

・ Introduce new financing instruments when they have been developed.

② Recommendation for TIIFIFA Members

The first step is to deepen the public's understanding of the content and significance of the SDGs. Based on this understanding, the importance of treating social problem-solving businesses as the Type II Financial Instruments Business is understood, recognizing the relationship between these businesses and the enhancement of corporate value from the viewpoints of opportunities and risks involved in SDGs.

Phase 1: Immediate actions

○ TIIFIFA to Enhance Members' Understanding of SDGs (A1)

While awareness of the importance of SDGs in business continues to increase, the need to improve the understanding of how SDGs can essentially translate into increased corporate value remains a challenge for many companies and financial institutions.

・ Learn the best practices for improving corporate value through SDGs efforts from the world's leading companies and financial institutions, and set a course for SDGs initiatives.

・ By tracking the latest developments in companies and markets that actively engage in SDGs, we will increase the informational sensitivity to identify promising investments that can be expected to increase corporate value through SDGs.

Phase 2: Medium-term Initiatives

○ Promotion to improve awareness and understanding of companies and fund holders by collecting, offer, and approaching information to promote SDGs (A1, A2)

Due to a lack of awareness of the relationship between SDGs and enhancement of corporate value and the perception of risks arising from the information gap, there is no progress in the establishment of SDGs projects or in the provision of funds to projects. From the position of members of TIIFIFA, it is necessary to actively encourage the formation of businesses and initiatives that solve social issues necessary for promotion.

・ Based on the dissemination of information by financial industry associations, including TIIFIFA, and various public agencies, the government will collect information on best practices concerning SDGs and improvement of corporate value. This will be done by sharing global trends in SDGs investment and actively providing information to investee companies and projects.

- Increasing members and investee companies and projects that will continue to increase their value over the long term by contributing to SDGs, and encouraging fund holders to increase the amount of funding provided to these companies will be essential.

〇 Promote disclosures about funds, trust beneficiary rights, and operating companies that contribute to SDGs (C1)

The delayed establishment of methods for assessing social returns and impacts and inadequate disclosure of information on companies and businesses hinder the provision of funds for social problem-solving projects. It is essential to understand that SDGs efforts lead to the enhancement of corporate value, and to actively disclose the links between these initiatives.

- Collecting and analyzing existing data and research, and conducting activities based on the need for quantitative analysis of the relationship between impact and return.

- Following the preparation of the Integrated Report by listed companies, considering the contents of the report and methods of providing information, and searching for ways of disclosing diverse information in a way that does not overlap with disclosure is key. In accordance with this method, companies/projects will disclose non-financial information more explicitly and raise awareness among cash holders.

- Understanding exemplary approaches to assessing specific social returns and impacts, and sharing information within the members of TIIFIFA, will enable them to accumulate knowledge that can be used to provide advice to the companies and projects in which they invest.

- As a member of TIIFIFA, it is also desirable to promote the awareness and understanding of investee companies and projects by clarifying the company's stance toward social problem-solving businesses and showing them to the market.

Phase 3: Long-term initiatives

〇 Study the development and offer of projects/programs/design platforms and SDGs investment-matching platforms (A2, D2, D3)

Due to the lack of information disclosure, the small scale of businesses/enterprises, and the risks inherent in social problem-solving businesses such as the length of payback period, there is a situation in which the development of financial products and funding is not advancing.

- Through the development of platforms, ① designing businesses that realize both social and economic returns, and ② linking them to fund holders, who are responsible for matching to facilitate the issuance of SDGs funds, to increase the number of projects and encourage the development of financial products.

- Based on the world trends gathered in Phase 2, various stakeholders will be encouraged to utilize blended financing and other methods so that the Type II Financial Instruments Business can contribute to the promotion of SDGs.

③ Recommendations to other stakeholders (public institutions, other financial institutions, firms, and investors, etc.)

We expect that “collaboration” will be promoted and strengthened based on information sharing and understanding of efforts among players. We expect that the outcomes of this collaboration will lead to the development of new schemes and platforms.

The government is expected to provide grants for the reduction of risks to financial returns and for the expansion of projects in an environment where funds are insufficient.

Local governments etc., are required to disseminate information on SDGs, following listed companies, and improve the awareness and understanding of fund holders.

Investors and asset managers are required to actively disclose their ESG/SDGs policies and practices in reports.

○ Promote and strengthen "collaboration" by sharing information and understanding of efforts among players (C1, E1)

As each player proceeds with their own initiatives and surveys toward the common objective of promoting SDGs, the strengths and characteristics of each player and their efforts are not fully organized, so cooperation is not advanced, and individual optimization or their efforts are flooded. At present, players do not know how to collect information. It is hoped that collaboration will be further promoted by enhancing the attitude and system by which players understand each other's initiatives and promote information sharing.

- Each player shall clarify policies for SDGs related activities and disseminate them to the public. Based on the information disseminated, other players consider the possibility of collaboration and avoid unnecessary burden on overlapping activities as much as possible.
- In order to promote collaboration, player information will be organized from entities with supervisory functions such as industry associations, research institutes, and government agencies. It is expected that collaboration will be promoted by visualizing which entities are taking what measures.

○ Build new schemes and platforms by promoting and strengthening collaboration (D2, D3)

There are still many obstacles to promoting SDGs in the financial sector, such as lack of disclosures, high funding hurdles, and high risks. Through collaboration between players with different positions and strengths in the financial sector or between public institutions and the financial sector, new value and services are expected to be created to resolve these issues.

- Develop business design and business matching platforms that contribute to the SDGs.
- Develop blended finance schemes in Japan.
- Establish a certification system to verify and assure that SDGs activities are being promoted.
- Introduce an award system to identify promising projects for SDGs promotion.

○ Promote the expansion of projects in the context of risk reduction and funding shortage by providing public subsidies (D1 and D2)

Grants are expected to be provided when risks to economic returns are mitigated and projects are expanded in an environment of insufficient funding. In particular, at the early stages of SDGs, there is a strong need for the support of public institutions for promotion.

- Take taxation measures for funds that contribute to the achievement of the SDGs.
- Provide initial-stage public subsidies to businesses that contribute to the achievement of a SDGs where markets are immature and economic returns are difficult to obtain.

○ Local governments promote information disclosure and raise awareness and understanding of fund holders (C1)

Currently, local governments and other projects/programs are actively being established, but information disclosure is not progressing and the fund holders are not well connected. Local governments should make efforts to disseminate information related to SDGs, such as listed companies' integrated reports and other reports for investors, so that fund holders can recognize and understand their efforts.

- Local governments work with fund holders while disclosing information. In addition to disseminating initiatives as websites and reports, raising awareness by actively participating in and promoting related events and forums are key.

○ Investors and asset managers actively disclose policies and practices for ESG/SDGs investments (C1)

Investor and asset managers need to actively disclose their ESG/SDGs policies and practices in reports and policies. By clarifying the ESG policies of the fund providers and engaging in the companies in which they invest, it is expected that this will create external pressures to promote SDGs efforts in the companies in which they invest.

- The Investor and Asset Manager sets the responsible investment policy in accordance with the PRI. In addition to formulating policies, improve the management of ESG investments in actual services.

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