

GlobalCapital

# Japan in the Capital Markets

APRIL 2024

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 **DBJ** Development Bank of Japan



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# Applying Financial Expertise to Design the Future

## Japanese Government Guaranteed International Bonds

4.500%	3.125%	3.250%
due January 2034	due April 2028	due April 2027
USD 500,000,000	EUR 1,000,000,000	USD 1,000,000,000
Issued in January 2024	Issued in April 2023	Issued in April 2022

## Sustainability Bonds

3.500%	5.125%	0.105%
due September 2027	due September 2026	due August 2025
EUR 500,000,000	USD 600,000,000	JPY 10,000,000,000
Issued in September 2023	Issued in September 2023	Issued in August 2023

## FILP Agency Bonds

0.690%	0.299%	0.125%
due January 2034	due January 2029	due January 2027
JPY 25,000,000,000	JPY 25,000,000,000	JPY 40,000,000,000
Issued in January 2024	Issued in January 2024	Issued in January 2024



# GlobalCapital

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## Japan in the Capital Markets

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Japan's environmental, social and governance bond market took a big leap forward this year when the government issued the world's first sovereign transition bond — making it a clear frontrunner in the transition away from fossil fuels to cleaner energy sources.

# Japan's SSAs bounce back as funding conditions stabilise

Japan's major government-backed borrowers issued well-supported international bonds during the fiscal year that ended in March, after putting the previous torrid year behind them. Navigating an increasingly volatile rates environment was not easy, but Japan's SSAs made transactions successful by prioritising investor communication, transparency, and selling environmental, social and governance linked bonds.

*GlobalCapital* brought together some of the country's leading SSA issuers and deal managers for a roundtable in mid-March, to discuss their approach to fundraising in the past year, the likely implications of a change in the Bank of Japan's monetary policy and the increasingly mainstream nature of ESG bonds.

**GlobalCapital:** Let's start by looking back at your funding plans over the last 12 months. The US interest rate environment was volatile, particularly towards the end of 2023, when markets overestimated the potential for rate cuts by the US Federal Reserve. How did Japan's SSA issuers navigate the fundraising environment in the past year?

**Masahiro Ito, Japan Bank for International Cooperation (JBIC):** Last year was easier to navigate compared to 2022, when the Fed started to increase rates, and for some time we were not able to foresee the impact of the rate hikes. There was a time when we were preparing for an issuance, but we had to cancel the deal at the very last minute. But in 2023, particularly the latter half, there were some forecasts on the end of interest rate increases, so the outlook was a bit clearer.

In this fiscal year we issued three year, five year and seven year bonds. In the beginning of the fiscal year, we only focused on short duration bonds, and chose three year as a tenor because of the volatile market situation. However, towards the latter half of the year, investors were becoming more accepting of long duration, so we took action accordingly.

We extended the duration of the bonds gradually and, compared to existing bonds with similar

duration, we were successful in bringing the curve to what we believe is the 'appropriate' level. We are satisfied with the past year and appreciate the support from the investment banks who have helped us, as well as our investors.

**Shu Kitamura, Japan International Cooperation Agency (JICA):**

We plan our funding based on the aggregate demand from each of our projects. After the pandemic, for example, JICA needed more funding to cater to the accelerated implementation of a lot of overseas infrastructure projects. For this fiscal year ending in March 2024, total demand for funds exceeded ¥2tr (\$13.2bn) for the first time. At the beginning of the fiscal year, we were able to foresee that, so in the first half, we issued foreign bonds guaranteed by the government of over \$1bn for the first time. The interest rate environment was complex last year. But, as there was strong precedence for us as JBIC and DBJ had issued before us, we looked at their deals as guidance for our bonds and were well accepted by investors. The lesson learnt was that even when the market environment is not very clear, through good communication with the investors, we could succeed with our funding.

**Takahiro Ando, Japan Finance Organization for Municipalities (JFM):** In 2022, we were not able

## Roundtable participants



**Masahiro Ito**, director, capital markets and funding division, treasury department, treasury and systems group, Japan Bank for International Cooperation (JBIC)



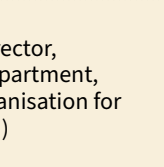
**Shingo Kanatani**, director, division of financing, treasury department, Development Bank of Japan (DBJ)



**Takahiro Ando**, director, finance, finance department, Japan Finance Organisation for Municipalities (JFM)



**Shu Kitamura**, senior director, budget for finance and investment account and capital markets division, treasury, finance and accounting department, Japan International Cooperation Agency (JICA)



**Masanori Kazama**, executive director, international debt capital markets, capital markets department, Nomura Securities



Moderator:  
**Rashmi Kumar**, *GlobalCapital*



to issue US dollar bonds, so in 2023, we wanted to do something to rectify the situation. When we issued bonds in the spring of 2023, the market environment was difficult. But since then, the environment has improved. We issued euro and dollar bonds in the new year and did not face any issues. In addition, JFM is in a unique situation in that we use the money raised to fund the local municipalities in Japan. As a result, any financing in the global market is converted to yen and used in yen, so we calculate foreign currency denominated bonds on yen basis. From that perspective, our funding plans were greatly impacted by foreign exchange rates with the weakening of the yen.

In an ordinary year, we would raise \$2.5bn, split between two \$1bn trades and one \$500m bond. But for the fiscal year ending March 2024, because of the weaker yen, we were not able to raise \$2.5bn. That was a unique challenge. During the summer, we normally raise \$1bn but we decided to reduce the amount to \$750m. Still, the issuance was successful as investors were keen to buy our bonds. But in our investor relations meetings, they all told us that from a liquidity point of view, they preferred \$1bn. That was the investor feedback, and we do need to take that into account and need to better communicate our plans. Having said that, we expect the weaker yen to continue this year, meaning we'll once again raise less than the previous year in the international bond market. How we reflect the voices of investors in our deals would be our challenge.

**Shingo Kanatani, Development Bank of Japan (DBJ):** DBJ issued five foreign currency bonds, two with government guarantees and three without. As the others mentioned, the environment for funding was better this year compared to last year, so three things happened for us. We usually issue in dollars with government guarantee, but for the first time in 17 years, we sold a euro bond. This was after the Credit Suisse turmoil and the Silicon Valley Bank collapse, so there was confusion and turmoil in the [dollar] market. But the European markets seemed better, so we opted for a euro bond in the spring window. Between the summer and autumn window, we sold bonds in dollars, euros and sterling in a row because

the environment was good and we wanted to capture that opportunity. Additionally, in January, we sold a 10 year government guaranteed bond for the first time in two years. JBIC had issued a seven year right before us and were successful, giving us confidence to do a 10-year bond.

**GlobalCapital: What sorts of questions have you had from investors and issuers, and what advice have you been giving borrowers on their fundraising plans?**

**Masanori Kazama, Nomura Securities:** Some Japanese issuers raise funds in international markets and then convert into yen, and the weaker yen in recent months has limited their issuance amount. We get questions on that from investors as, from a liquidity point of view, they would prefer more issuance.

From an ESG perspective, many Japanese issuers are issuing ESG bonds and will continue doing so in the new fiscal year. Japan's fiscal year starts in April and usually it's a congested month for issuance, but the favourable market environment will be a tailwind for the borrowers.

**GlobalCapital: Can you talk about your issuance plans for the next financial year, including the currency and tenor mix you're looking at?**

**Ito, JBIC:** JBIC is a bit unique for a Japanese institution as 90% of our assets on the balance sheet are denominated in US dollars. This means the main financing currency will continue to be dollars. The remaining 10% includes various currencies, including euros, Thai baht and Indian rupees.

In fact, we provide loans in euros for projects in Europe, so the euro is

## Japan's major SSAs have been consistent issuers of international debt

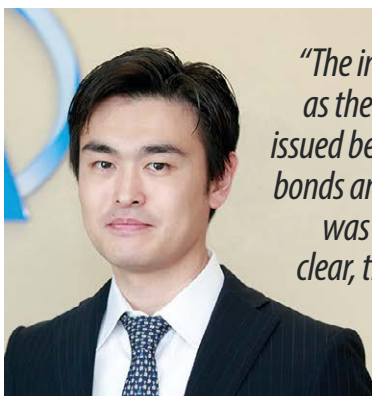
Month of issuance	Amount raised (in \$m equivalent)	Maturity	Currency
Japan Bank for International Cooperation			
Jan-24	1,000	Jan-31	US dollar
Oct-23	500	Oct-28	US dollar
Jul-23	1,500	Jul-28	US dollar
Apr-23	2,500	Apr-26	US dollar
Development Bank of Japan			
Jan-24	500	Jan-34	US dollar
Oct-23	305	Mar-26	Sterling
Sep-23	540	Sep-27	Euro
Aug-23	600	Sep-26	US dollar
Apr-23	1,095	Apr-28	Euro
Japan Finance Organization for Municipalities			
Jan-24	548	Jan-29	Euro
Aug-23	750	Sep-26	US dollar
Apr-23	1,000	Apr-28	US dollar
Japan International Cooperation Agency			
May-23	1,250	May-28	US dollar

Source: Dealogic

Issuance for the fiscal year from April 1, 2023 to March 31, 2024

always one of our choices when we consider the currency for the bonds. We last issued euro denominated bonds in February 2023. One year has already passed since then, so we are talking with European investors now who are looking forward to a euro-denominated government guaranteed bond from us. We want to look into the possibility of issuing that in the new fiscal year.

Yen denominated bonds will be quite limited, but this is still within our budget for the year so we will plan accordingly. As far as a yen denominated bond is concerned, this will be issued in the domestic market without a government guarantee.



*"The interest rate environment was complex last year. But, as there was strong precedence for us as JBIC and DBJ had issued before us, we looked at their deals as guidance for our bonds and were well accepted by investors. The lesson learnt was that even when the market environment is not very clear, through good communication with the investors, we could succeed with our funding."*

Shu Kitamura, JICA

*“For yen bonds in 2023, the market was quite good for us. But in the next fiscal year, we need to be cautious as the Bank of Japan has made modifications to its interest rate policy, which would impact our fundraising. But we don’t think the situation will be quite as bad as in 2022.”*

Takahiro Ando, JFM



**Kitamura, JICA:** Most of our balance sheet is in yen and funded by long-term liabilities. But the dollar-denominated portion is also increasing. Despite being less than 10% of our balance sheet, issuance of dollar denominated bonds from JICA, all guaranteed by the Japanese government, recently amounts to more than \$1bn every year and we plan the timing based on market conditions. For the duration of bonds, it could be around five years.

One other interesting point is that this fiscal year, we sold retail bonds targeting people who want to support JICA’s investment. The timing was good and the deal was successful, and we could widen our investor base compared with earlier when we rather focused on institutional investors. For this fiscal year, we will look at the market environment and interest rates and adjust our yen bond issuance plans.

**Ando, JFM:** We lend to Japanese municipalities, so if they have insufficient tax revenue, they will need more financing. That’s the basic rationale behind our own bond raising plans. Right now the tax revenues at local municipalities are getting better, so the total amount needed from capital markets is declining. As a result, the amount of

### Development Bank of Japan ventured out to the yen market five times in the fiscal year

Pricing Date	Deal Value
Jan 2024	¥90bn
Oct 2023	¥90bn
Aug 2023	¥10bn
Jul 2023	¥95bn
Apr 2023	¥90bn

Source: Dealogic

Data for April 1, 2023, to March 31, 2024

publicly offered bonds to be issued by JFM has declined in the last three to four years. For the new fiscal year beginning in April 2024, we will be issuing ¥300bn (\$2bn)-equivalent in international bonds and ¥700bn in domestic yen bonds and may increase the size as needed, up to about ¥1.1tr in total.

For yen bonds in 2023, the market was quite good for us. But in the next fiscal year, we need to be cautious as the Bank of Japan has made modifications to its interest rate policy, which would impact our fundraising. But we don’t think the situation will be quite as bad as in 2022. Maybe this is a bit optimistic but that’s the view we have right now. For our domestic bonds, we’ve been approaching existing investors and they will be willing to purchase JFM’s bonds.

Globally, we plan to raise about ¥300bn equivalent from bonds. We want JFM’s presence to be well recognised by overseas investors. We need to be active, but having said that, due to the weaker yen, we have to reduce the issuance of foreign currency denominated bonds compared to an ordinary year. If the forex rate does not change significantly, in the spring we would like to issue \$1bn in bonds. Also, we will be continuously issuing green bonds at the beginning of 2025 and conventional bonds this summer, from which we plan to raise \$1bn in total. There could be some ups and downs which we may need to accommodate.

Aside from public bonds, we do privately placed bonds and Uridashi bonds. We would leverage different tools to meet the demands of investors and manage our issuance of bonds.

**Kanatani, DBJ:** DBJ has been issuing ¥1tr in bonds each year — 60% in Japanese yen and 40% overseas. The ratio will remain the same next year. I believe the

environment is favourable for foreign bonds but it’s difficult to foresee when rates will be cut and there are uncertainties globally, which we will need to navigate.

Every year, we issue dollar, euro and sterling bonds. In line with investor expectations, we want to issue in all three currencies this year too. In Japan, the BOJ changed its monetary policy in mid-March and the interest rate may begin to go up. This will be very gradual so it’s easy for investors to foresee the future and maintain a good fundraising environment.

However, I do see some changes in demand from investors. Before, it was difficult to get a lot of investor demand for our three-year bonds, but now, we are beginning to see more positive feedback from investors and see them buying more three year and five years, which we issue all the time.

**GlobalCapital:** What are you telling global investors about the Japanese economy and its prospects — and how confident they should be about economic recovery in Japan?

**Kazama, Nomura:** Sluggish GDP growth has been the trend in Japan for the past two decades. But we are beginning to see a silver lining. When there was a baton change at the Bank of Japan from Haruhiko Kuroda to Ueda Kazuo, that was one turning point. We first observed the costs push inflation due to hiking energy costs but we’re now beginning to see sustained growth. If we see strong wage increases at Shunto [union workers in Japan], then it will be reflected in the BOJ policy of removing the negative interest rates. Non-Japanese investors are paying a lot of attention to the Japanese policy, as are Japanese investors because there will be some concern if domestic rates go up. But even if there are changes this will be gradual, so even though there’s concern among investors, they are ready to take it in their stride.

**GlobalCapital:** As monetary tightening in Japan approaches, what are your key considerations for your issuance plans?

**Kitamura, JICA:** Our balance sheet consists mainly of yen assets. We are quite unique in the sense

# Helping build vibrant regional communities

JFM, Japan's sole municipal finance agency, raises funds from the global debt market to provide concessionary financing to municipal entities for vital public projects including water infrastructure, transportation systems, and healthcare facilities.

<b>January 2024</b> EUR 500,000,000 2.875% Reg S Green Bonds due 2029	<b>September 2023</b> USD 750,000,000 5.125% 144A/Reg S Bonds due 2026	<b>April 2023</b> USD 1,000,000,000 4.125% 144A/Reg S Bonds due 2028	<b>February 2023</b> EUR 500,000,000 3.375% Reg S Green Bonds due 2028	<b>September 2022</b> EUR 1,250,000,000 2.375% Reg S Bonds due 2027	<b>January 2022</b> USD 750,000,000 1.500% 144A/Reg S Green Bonds due 2025
<b>September 2021</b> EUR 1,000,000,000 0.100% Reg S Bonds due 2031	<b>April 2021</b> USD 1,250,000,000 1.125% 144A/Reg S Bonds due 2026	<b>February 2021</b> USD 1,250,000,000 1.375% 144A/Reg S Bonds due 2031	<b>February 2021</b> EUR 500,000,000 0.010% Reg S Green Bonds due 2028	<b>September 2020</b> USD 1,500,000,000 0.625% 144A/Reg S Bonds due 2025	

Wholly owned by Japanese local governments  
Highly experienced management  
More than 60 years of excellence in supporting Japanese municipalities  
Credit ratings equal to the Japanese national government sovereign rating  
(Moody's: A1, S&P: A+)



**Japan Finance Organization for Municipalities**  
Shisei Kaikan, 1-3 Hibiya Koen, Chiyoda-ku, Tokyo 100-0012, Japan



*“Some Japanese issuers raise funds in international markets and then convert into yen, and the weaker yen in recent months has limited their issuance amount. We get questions on that from investors as, from a liquidity point of view, they would prefer more issuance.”*

Masanori Kazama, Nomura Securities

that we provide long term funds to developing nations mostly in fixed interest rates as sort of fiscal support for these recipient nations. Of course, as a result, our liabilities are also long term, be it bonds or bank loans. In principle, our maturity structure for bonds is also long term. But the challenge is aligning that with market conditions from time to time. Given that the monetary environment is changing rapidly and the 20 or 30 year benchmarks are likely going up, we have to carefully look at the BOJ policy and think about the yield curve in the future and strike a good balance between shorter and longer dated liabilities including bonds, in order to manage the financial costs from the interest rate hike over the long run.

At this point, we are looking at different scenarios and thinking about what’s the best mix for JICA. In the past, we used to issue bonds with various durations including less than five years, and although the amount is limited, we leverage these fiscal investment tools for duration matching.

**Ando, JFM:** In 2023, the market had to deal with yield curve control policies from the BOJ, and this year the market has to respond to the end of Japan’s negative interest rate policy. But I don’t think there’s going to be a panicked response. The change of the policy on negative interest rates will create a certain level of volatility, but from the perspective of issuing bonds or not being able to gather demand from investors, that’s unlikely to be impacted. This could be a bit optimistic, but that’s our stance right now.

**Kanatani, DBJ:** We are balancing the asset and liability duration to minimise the interest rate risk. As we see changes to interest rates, the terms of the financing of our clients, the major Japanese corporations, may change going forward. DBJ issues three year, five year, and 10 year bonds in the domestic market, so we may have to change the balance of that to a certain extent. But we are less clear on demand for financing from corporations.

**GlobalCapital:** Let’s talk about the important topic of ESG. What are your expectations for Japan’s ESG bond market internationally, in terms of volumes and innovation – and how are you complying with disclosure requirements?

**Kazama, Nomura:** We expect foreign issuance of ESG bonds to remain consistent this year, at around \$60bn. Of that, we think about 60% would be green bonds, as they remain the mainstay of the ESG market, despite the introduction of many new structures like sustainability, sustainability-linked and transition bonds. But we are now seeing a new theme which is transition, following the climate transition bonds issued by the Japanese government this year. There is expectation for an expansion of this asset class, but we still need to explore if overseas investors will deem this to be completely ESG related.

**Ito, JBIC:** We issued our first government guaranteed green bonds in January 2022, and have since followed up with similar deals in October 2022 and September 2023. We explain to investors that we aim to issue green bonds at least once every fiscal year. But the use of funding is very limited for green bonds, so we make sure that we have enough outstanding [projects], either with existing loans or the ones in pipeline, that will be eligible for green bonds. Overseas companies are particularly focusing on renewable energy and we’re getting a lot of inquiries on loans for that, so in that sense, we can issue green bonds at least once every year. We have so far done dollar green bonds, but we also have euro needs for European offshore wind power projects. There are cases where we can also finance in euros so euro-denominated green bonds could be an alternative for us going forward.

Based on the ESG framework, which we announced in 2021, the use of proceeds is determined very stringently. We publish this on our website for reporting purposes: what type of project it was, in which country, what was the project and by supporting that project how much do we contribute to the reductions in carbon dioxide. It’s like impact

### Yen/dollar exchange rate

Year to April 1



Source: Bloomberg

reporting, which is publicly available on our website so investors can see it.

We have asked investors what they think about the report and we have got a good rating from investors. They say we have put together the information in a very easy to understand manner. We will continue doing this, and making sure we are aligned with all disclosure requirements.

**Kitamura, JICA:** JICA has been issuing sustainability and social bonds over the years. We started with a social bond in 2016, when we were the first to issue a social bond from Japan. Since then, we have issued social bonds every year, for a cumulative amount of ¥420bn. The funds are used to make loans or grants for JICA projects, usually in developing nations, in order to support their initiatives with some social significance to it. This makes it easier for our stakeholders to understand.

In order to better communicate our plans, in July 2023 we established our social and sustainability framework, and got a second party opinion. We have also sold thematic bonds. For example, in 2023 we issued a Disaster Resilience Bond, aimed at supporting developing nations' efforts to become more resilient to natural disasters, and would also help them to adapt to climate change. This fiscal year there were severe natural disasters, such as the Turkey earthquake, and we could extend support with the help of issuance of such thematic bonds.

Sustainability disclosures are important to us and that is why we established the framework, because we want to do more ESG deals in the future. We have a sustainability policy, which we disclose as part of an organisational-wide effort, alongside our ESG bonds and loans to show investors that we are fully aligned.

**Ando, JFM:** We have issued mainly euro green bonds every year but have also done a US dollar deal. Our target proceeds are for the Japan sewage industry. The local municipalities will need to submit data on their initiatives and we then file a very detailed report on this. When we get feedback from investors, they say the details make it easy for them to assess it as a pure green bond. We want to continue to do this.

We have also deepened our initiatives in ESG this fiscal year. We established a sustainability committee in the organisation, which is not just about the issuance of bonds, but also to deal with governance within JFM. This is the G part of the ESG as we want to make sure that our governance can be assessed by external parties.

In the first half of 2024, JFM is planning to issue green bonds in Japan for a water supply project for the first time. Local investors are interested in local municipality bonds that are green so we believe there will be demand. When it comes to foreign denominated green bonds, we have only been able to issue about \$500m every year. We have the potential to expand the issuance size because JFM's projects include loans for railway, railroads and other public facilities, which are implemented by local municipalities.

But for us, the big bottleneck is reporting our efforts. In order to increase our issuance, we need to overcome this hurdle. We're not doing the projects ourselves, but rather it's the local municipality. To obtain data on the environment, we need to get the local municipalities to give that data to us so it needs a lot of effort on our part and on the part of the local municipalities. Because of that, our limit at this point is \$500m for global issuance. We are exploring ways the report could be changed so we can target more projects and increase our issuance. We are holding discussions for that internally, but we also don't want to make significant changes to our ESG reporting as otherwise we will lose the confidence of investors. If we do revise it, we would make sure we have a good dialogue with investors and get their feedback.

**Kanatani, DBJ:** We issued our first green bond in 2014 and since then we have continuously issued ESG bonds, including sustainability bonds, two or three times every year. This will be the case next year as well.

As for sustainability related disclosures, climate change and human rights or human capital are the two major areas where we have been working on and enhancing our disclosures. We look at the level of disclosure from Japanese companies and financial institution for reference purposes. Our main clients are in the utility or related industries and really have to tackle issues around climate change. Supporting these companies with their transition is our mission, so not just disclosing our greenhouse gas exposure but supporting them in reducing their GHG exposures are critically important. That's what we're working on right now.

**GlobalCapital:** What more needs to be done to remove some of these ESG disclosure bottlenecks and help further boost the ESG debt market?

**Kazama, Nomura:** We don't necessarily need a set template, but we need to understand what is considered sufficient disclosure. The level may differ depending on the issuer. What should be disclosed, or what would be deemed as sufficient, are things now being discussed. We may be ahead of other countries in many ways including issuance volumes, but other countries could be ahead of Japan because they have to respond to regulations. But we need to think about to what extent Japanese companies would be able to follow this, and if we need guidelines that could lead or drive the companies. I believe that is something that will be done at some point.

*"The Japanese economy is finally moving towards recovery and Japan is receiving a lot of attention. So as a Japanese, I'm very pleased about that. Everyone at this roundtable is from a public institution and they are all working for Japan's growth and for Japan. I hope this is sustainable. The flipside of it is concern over whether the growth is durable and sustainable. I want to be optimistic about this."*

Masahiro Ito, JBIC



*“The world is becoming more volatile and fragmented. But now there is more focus on Japan. That is good and we have to use that opportunity. For the past couple of years, conditions were really tough for us, but we’ve been able to issue our bonds. Therefore, as the environment is getting better, we want our bonds to be bought by more investors in both domestic and international markets.”*

**Shingo Kanatani, DBJ**



**Ando, JFM:** We are thinking about how we can efficiently gather data with the resources we have in place. For example, our organisation works on water supply and sewerage work in Japan. For each project, there are ministries issuing data on sewerage initiatives based on what the municipalities are doing. Whether it’s ESG bonds or green bonds, if they could link the data to those bonds and if we can look at their data instead of going into each and every local municipality, that will help us so much in disclosing accurate data related to environmental projects that are done in Japan. But it is not very simple, so initially, within our organisation, we have to think about how we can gather data in an efficient manner.

**Ito, JBIC:** We also have to gather information from external entities. For example, we look into individual projects, but whether the individual project qualifies for an ESG bond, we have to go directly to the borrower that is operating the project to get the information. That’s a lot of work so we’re facing similar issues as JFM. We are constantly seeking better approaches to improve the situation and meet investor demand for more transparency.

**Kitamura, JICA:** We are also facing similar issues as JBIC and JFM. We have to make appropriate disclosures on the social and environmental safeguards of our projects according to our relevant guidelines, and seek cooperation from our counterparties accordingly. For JICA, the counterparty will be the overseas government or overseas institutions and their disclosure systems may vary. We want them to understand the importance of disclosures so that we would be able to proceed

with each project. We will also measure the social impact and fulfil necessary disclosure requirements as an issuer to meet investor expectations. To that end, gaining common understanding among the stakeholders is important, and a lot more work may need to be done, such as preparation and improvement of aligned formats for information sharing.

**Kanatani, DBJ:** From an ESG reporting point of view, impact case reporting is really difficult, in particular social measurement is extremely difficult. So when it’s difficult to measure the social impact, maybe we have to focus on things that are easier to measure, like renewable energy, for example. As a financial institution, we have a role to play in revitalising transition finance, and that’s something we are focusing on more.

**GlobalCapital:** What are you most optimistic about for the year ahead? And what are you most worried about?

**Ito, JBIC:** The Japanese economy is finally moving towards recovery and Japan is receiving a lot of attention. So as a Japanese, I’m very pleased about that. Everyone at this roundtable is from a public institution and they are all working for Japan’s growth and for Japan. I hope this is sustainable. The flipside of it is concern over whether the growth is durable and sustainable. I want to be optimistic about this.

**Kitamura, JICA:** While I agree with Ito with regards to the Japanese economy, given the role of JICA, we’re more focused on overseas markets and things are constantly changing there. Climate change as a trend will continue to be a big challenge.

Our slogan is “Leading the world with trust,” so we are delivering knowledge from different stakeholders overseas. This is something we need to continue to do in our role at JICA. What I find uncertain is the geopolitical situation, be it the Middle East or Ukraine. For example, we have been extending various forms of assistance and reopened an office in Kiev amid the crisis. There is heightened uncertainty, and there appears to be higher volatility in the financial market. What can we do in this kind of environment? That’s a challenge, and every one of the decisions we make for treasury management is difficult. But through it all, JICA has been able to gain and build trust over the years, contribute and work with other countries — and we need to make sure that we meet these expectations as much as possible.

**Ando, JFM:** We think market conditions for domestic bonds are not going to worsen much. But if we were to think about converting international funding to yen, the weaker yen poses a challenge. It’s something we would never have been able to imagine five years or 10 years ago. But on the other hand, the financing amount of our institution has been decreasing so how we manage that is something we have to think about going forward.

**Kanatani, DBJ:** The world is becoming more volatile and fragmented. But now there is more focus on Japan. That is good and we have to use that opportunity. In terms of bond issuance, for the past couple of years, conditions were really tough for us, but we’ve been able to issue our bonds. Therefore, as the environment is getting better, we want our bonds to be bought by more investors in both domestic and international markets. That’s where we want to put our efforts.

**Kazama, Nomura:** We have people here who represent Japan as a country, and we have heard about their expectations for the future. I am very encouraged and have become more optimistic. As a securities firm, we connect the market and issuers. This is a robust message: that we will continue to grow and develop Japan’s capital and ESG markets and we want to make sure that we can convey this message globally. **GC**

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# Japan's landmark transition bond opens debate for more

Japan's environmental, social and governance bond market took a big leap forward this year when the government issued the world's first sovereign transition bond, with much success. The journey was long and involved collaboration across ministries, as well as plenty of behind-the-scenes communication with global and domestic investors. But the deal has made the country a clear frontrunner in what is set to be an arduous journey for the world in its transition away from fossil fuels to cleaner energy sources.

*GlobalCapital* brought together speakers from the Ministry of Finance and Ministry of Economy, Trade and Industry — as well as other issuers, investors and dealmakers — for a roundtable in March to talk about what's next for Japan's ESG market and how its transition bond could serve as a template for other countries.

***GlobalCapital:* Japan sold the world's first sovereign transition bond in mid-February, raising ¥1.6tr (\$10.5bn). What were the highlights of the transaction — and what was the Ministry of Finance hoping to achieve with this deal?**

**Kyu Asakura, Ministry of Finance:** One of the main highlights was that the bond was the world's first sovereign transition bond. In addition to that, one of the major objectives for issuing this transition bond was not just to raise the funds for our GX [short for "green transformation" in Japan] investment, but to let the global community know about Japan's GX strategy. We also want to spread transition finance, both in and outside of Japan. Those were some of the main objectives of the issuance of the sovereign transition bond.

Through these two tranches, we have been able to receive feedback from different investors who have invested in the bonds, and who now have a better understanding of transition finance in Japan.

We were able to get substantial support from a wide investor base — another objective that we were able to accomplish. We held meetings with investors in the US and Europe and our bond arrangers also said they had a lot of investors

waiting for an appointment, reflecting that interest in transition bonds is increasing.

Overall, we were able to achieve our objective of helping investors gain greater understanding of Japan's GX strategy and transition finance.

***GlobalCapital:* What were the key questions that investors asked you?**

**Asakura, MoF:** The investor meetings were a collaboration between the Ministry of Finance [MoF], METI [Ministry of Economy, Trade and Industry], second-party opinion providers like evaluation agencies and investment banks. It was a partnership between public and private sectors and involved meeting with investors both in Japan and overseas.

In our meetings, Japanese investors were asking more detailed questions about the product itself. Because of all the media coverage up until now, Japanese investors do understand what we are aiming for and what sort of investment we will make so they had a lot more knowledge and more understanding than overseas investors.

That was some of the feedback from Japanese investors. Meanwhile, overseas investors asked more about use of proceeds and reporting. Relatively, those were the larger percentage of questions.

## Roundtable participants



**Fumihiko Kajikawa**, director, GX finance promotion office, office for opening the GX promotion organisation industrial science, technology and environment policy bureau, Ministry of Economy, Trade and Industry (METI)



**Kyu Asakura**, deputy director, debt management policy division, financial bureau, Ministry of Finance (MoF)



**Akihiro Seo**, board director, management executive officer, chief human resource officer, IHI Corporation



**Jason Mortimer**, head of sustainable investment, fixed income, global solutions, investment department, Nomura Asset Management



**Kentaro Mori**, managing director, sustainable finance lead, head of sustainable finance section, sustainable finance department, Nomura Securities



Moderator:  
**Rashmi Kumar**, *GlobalCapital*

## Japan's Ministry of Finance sold two tranches of transition bonds in February

Auction date	Type of security	Nominal coupon
February 14, 2024	¥800bn 10 year climate transition bond	0.70%
February 27, 2024	¥800bn five year climate transition bond	0.30%

Source: Ministry of Finance

### Fumihiko Kajikawa, Ministry of Economy, Trade and Industry:

When it came to transition finance, there were questions about decarbonisation, but Japanese investors understood the green transformation (GX) strategies of the government of Japan. On the other hand, international investors asked us why we didn't do a green transition bond. They said things like, because you can't do green in Japan, you're doing a transition bond. Those were the kinds of questions we got before the investor relations meeting.

When we did the IR meetings, we explained our GX strategy. We also emphasized that in order to achieve carbon neutrality by 2050, in addition to promoting green finance centered on renewable energy, it is essential to provide transition finance that provides funds — including for projects that are working to steadily reduce emissions — even if it is difficult to decarbonise in a single step, such as decarbonising heat demand in high-emission industries such as steel and chemicals.

In the cement industry, for example, you need heat levels of about 1,500 Celsius to run the furnace. And that's difficult to

achieve with renewable energy, so it's an issue. As a result, there have to be various approaches to decarbonise and transition from brown to more green. Since it takes time to reduce CO<sub>2</sub> emissions in such efforts to decarbonise heat demand and manufacturing processes, the purpose of issuing GX Economy Transition Bonds is for the government to invest in these areas that cannot be adequately handled by private companies and private finance. With this transition, we get closer to being carbon neutral, which is something that we had to explain as an actuality.

### GlobalCapital: MoF and METI worked very closely on this transition bond. Can you explain each of your responsibilities for executing the deal and the challenges you faced in structuring the transaction?

**Kajikawa, METI:** The Cabinet Office and the government were focused on how to issue this bond. The Ministry of Finance was involved. The Financial Services Authority was involved, and as was the Ministry of Environment, as they look at environmental policies in Japan for all companies.

METI was also focused on working on this as the ministry in charge of energy use. We talked about the GX strategy, came up with a framework and explained how we are going to use the money. That's what we were in charge of: explaining the data, the characteristics of the bond, how it should be sold to investors and the issuance procedures. The MoF was

leading the process but for these processes, we worked very closely, as well as to obtain the second party opinion.

**Asakura, MoF:** The MoF oversaw the issuance, the characteristics of the product, and also took into consideration what investors and the securities firms were thinking about. This included the issuance amount, the market capacity, how it should be issued, and the tenor of the product.

We also exchanged views and opinions on basic aspects in the secondary market, including those dealing with the infrastructure for the bond's trading or the parties in charge of the indices. We discussed how the bond should be handled and decisions were made before the first issue as we wanted to make as much disclosure to investors as possible so they will not have any concerns. That is the environment that we tried to prepare before we went to the market.

### GlobalCapital: The MoF still has a big target to hit on the GX bonds. What were some of the lessons learnt from the two deals so far — and is there anything you'd like to change for future tranches?

**Asakura, MoF:** One thing we need to keep working on is investor relations. We want people to understand Japan's GX strategy. We worked on transition finance and have made big strides but this is not the end of the process. We have to continue our conversations with overseas investors. They just started to understand our strategy but there is still some reluctance in wanting to actually buy our bonds, so we have to talk to them more and increase our investor base.

We will continue making efforts toward that objective. In Japan, the status is the same. The ESG bond market's scale in Japan is roughly ¥4tr-¥5tr per annum. In terms of transition bonds, on a cumulative basis, roughly ¥700bn has been issued so far. Therefore, if we issue ¥1.6tr, then the transition bond market will increase by three times.

The number of ESG bond investors is increasing, but the issuance amount is still not sufficient. We want to increase that and by promoting transition, we want to disseminate the importance

*"We have to continue our conversations with overseas investors. They just started to understand our strategy but there is still some reluctance in wanting to actually buy our bonds, so we have to talk to them more and increase our investor base."*

Kyu Asakura, MoF



of the product both domestically and overseas.

**Kajikawa, METI:** I'd like to add that another thing we should be doing better is around reporting. For example, if we were to work on solar power generation to become carbon neutral, we have to make sure that the use of money for transition/green bonds has been contributing and showing results. That's what we have to keep communicating and this is the key for the success of the issuance. For international investors, they will be asking us about these aspects as well so we will have to keep working on this to update the status to them, and also in some cases, we have to promote the status of the country as well.

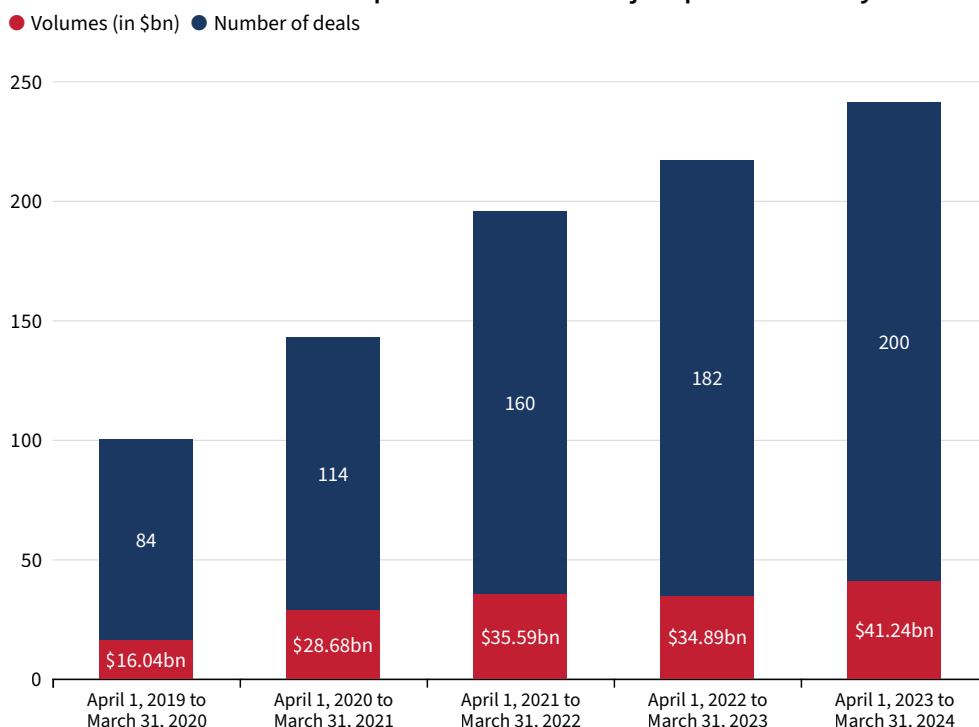
**GlobalCapital:** What are your expectations for the future of the transition bond market in Japan and beyond? And are you getting inquiries from potential issuers and from investors wanting to know more about the Japanese transition bond and how they can replicate it?

**Kentaro Mori, Nomura Securities:** Thanks to Japan's first sovereign transition bond, I feel the transition finance debate is going to take a big step forward this year. At the moment, Japan will continue to be the main marketplace for this product, but I hope that transition finance initiatives will spread globally.

In the past, green and sustainability have responded to decarbonisation, including renewable or energy conservation, and ESG funds have catered to those. But not much funding has been funnelled to transition finance, where much more CO<sub>2</sub> reductions can be realised. That's because we didn't have clear definitions for this or there has not been consensus on technologies and pathways, and there have been concerns about greenwashing.

Currently, the importance of transition finance was confirmed at the meeting of the Group of 20, and the elements of transition are considered in the taxonomy in Singapore. I feel that the actual efforts of transition finance are spreading outside of Japan, and interest in the discussion will increase. We're getting many inquiries from overseas investors

### ESG bond issuance from Japanese issuers has jumped over the years



Includes only green, social and sustainability bonds  
All currencies

Source: Dealogic

on transition finance, mainly about the use of funds and what are the projects. We try to be detailed in our explanations and help them understand Japan's GX strategy.

**GlobalCapital:** Jason, you're in the thick of it all. How much of what the others have said resonates with your own experience?

**Jason Mortimer, Nomura Asset Management:** Transition is a really great way for Japan to tell its story in the market. For me, the big promise of transition finance is that we can take the sustainability and investment concept forward from green and brown binary to one that is a lot more nuanced, a lot more practical and with the real actual ability to deliver net zero transition. The focus for a lot of investors has been on whether the assets are green or brown and how to get that ratio whereby you can get rid of the brown and maximise the green.

That actually causes quite a lot of problems and doesn't necessarily work in the real world. For Japan to be brave and come forward with this transition plan — which has elements of well recognised and

well thought out traditional green elements, as well as the ambition to tackle those hard debated sectors and say, yes, we are going to have steel, we are going to have cement, we are going to have energy security needs in the future so let's figure out how to do that as a package — that is the real way to successfully transition. There are political and economic issues that we're running into as net-zero has near term and long-term costs and opportunities. Managing all those different pieces and saying this is going to be a process over time, that is a very important step forward for the market and its maturity.

**GlobalCapital:** One of the concerns for the market has been the different interpretations of transition finance. What do you think will be the key determining factors for which approach proves more successful in the long run?

**Mortimer, Nomura AM:** The one that's going to be successful is the one that delivers transition in a stable and orderly way. For example, some countries have implemented very ambitious climate programmes and net-zero targets and are now running

*“Thanks to Japan’s first sovereign transition bond, I feel the transition finance debate is going to take a big step forward this year. At the moment, Japan will continue to be the main marketplace for this product, but I hope that transition finance initiatives will spread globally.”*

*Kentaro Mori, Nomura Securities*



into some real-world problems and limitations. We’re seeing political blowback and, in some cases, policies being rolled back. That’s obviously not something investors and companies want to see because policy volatility is a real killer for people looking to commit capital.

In that sense, Japan is showing people a real way forward. Japan has set fairly ambitious targets for itself and is delivering on those targets. If you look at Japan versus other G7 countries tackling transition, Japan is one of the leaders in that regard. You don’t have the political pushback we are seeing in several other large countries.

**Mori, Nomura Securities:** We speak with both Japanese investors and global investors, and they both think very differently. Overseas investors look at transition finance, in principle, as a subcategory of green bonds. They believe it should be issued within a green bond framework. However, green bonds are limited in how they can be used, so issuers in hard-to-abate sectors can’t use the proceeds to develop low carbon emission technologies. That’s a challenge they’re facing.

For example, when it comes to clean transportation, electric vehicles are one of the solutions being offered. But there’s a risk that progress towards net zero will stop if it’s just a dualism of green and others. Specifically, EVs have spread rapidly over the past few years, but demand is starting to slow. On the supply chain side of production, it is becoming difficult

to secure materials such as nickel and cobalt, which are necessary for EV batteries. Can EVs alone really achieve decarbonisation in clean transportation? People are starting to realise that’s not the case.

In order to achieve the goals of the Paris Agreement, it’s important not to advocate extreme dualism, but to advance efforts to achieve the goals from a broad perspective. Naturally, we need to engage in careful dialogue with issuers and investors to avoid greenwashing.

**Mortimer, Nomura AM:** A way to think about it in terms of these two different approaches is: do you have a green/brown binary approach whereby it’s net zero today versus a transition concept over time? If so, how are all these different strands coming together and holding together over the long haul?

Until now, people have used the green-brown binary idea and in some cases, there have been green boom-and-bust type examples. The EV market is one of those and that is not really helping us move forward in a fast and good way towards transition. It’s really important for us, especially as investors, to step back and say: how is this company or how is this investment performing over time because it is going to be a transition over time.

It is not possible to have every single project or asset or investment be done as net zero today. That understanding that it is a process and that it’s essential to focus less on the what but more on the how is important. How is the

issuer, the company and the project performing over time? That’s a mind shift that we need to have here and that is something enabled by a transition finance framework.

**GlobalCapital:** We have the executive officer from IHI here, a company playing a big role in Japan’s transition journey. Can you talk about your transition strategy and journey so far?

**Akihiro Seo, IHI Corporation:** IHI Corporation has established a net zero target by 2050. To achieve that target, it’s important to formulate the businesses and the technology in the right way. Japan as a country has come up with a strategy for its transition journey so, as a corporate, we have to form policies heading in that direction too and explain that well to everyone. We have to make sure that we develop the technology for that purpose, and that it is linked to the corporate value. We need to verify continuously that people understand the practical steps we are taking in that journey.

As METI and MoF said, we do think there is a certain level of uncertainty around transition finance broadly, so we want investors to understand the Japan strategy well too. If people understand the GX bond, we will be able to raise financing based on those understandings in the financial market. We want to leverage the GX concept for our business transition.

**GlobalCapital:** How can issuers like yourself and others in the industry ensure they’re mitigating concerns around greenwashing among investors?

**Seo, IHI Corporation:** Japan has established a transition finance handbook. Following those guidelines is really important as the national strategy and the corporate strategy are all intertwined. We have to make sure this is in accordance with the 1.5 degrees scenario, and that we have the right governance for that purpose, as well as the right innovative technology to help with the transition.

The bottom line is: what direction are we heading towards? What is the result coming from that? Is it acceptable and can we explain the results well enough to investors? We have to make sure that the bottom line is right.

**Kajikawa, METI:** When talking about transition finance, some people ask for their opinion on the concerns of greenwashing, but for companies that are working on this and putting efforts into transitioning, the word ‘greenwashing’ is inappropriate. Those people do not understand the reality of what’s happening in the field.

One example is that IHI has a plant in the Hyogo prefecture in Japan, where they are experimenting with 60% ammonia combustion. I have been allowed to visit the site, and the people who work there are desperate to conduct research. People should go to the field and see the actual scenes there because people are making serious efforts to reduce emissions. Heading there might be quite difficult, but the commitment of people and how the frontline people are actually working, we want the market to understand that. It’s difficult for investors supporting this to look at the actual field but maybe they could look at the technology around it. That will help change things and their perspectives on greenwashing.

**Seo, IHI Corporation:** That’s really true. It’s important to go to the worksite because people in the field are working with ammonia and not thinking of it as an extension of fossil fuel. We are aiming for CO<sub>2</sub> to be carbon neutral, because ammonia doesn’t emit CO<sub>2</sub> and could help achieve net zero. That’s the direction we’re heading and delivering results. I hope that people understand that they need to see how we work on this.

**GlobalCapital:** What questions and concerns are investors raising on whether assets are green enough or not?

**Mori, Nomura Securities:** When it comes to ammonia co-firing technology, I needed to see it for myself, so I went to IHI’s plant and saw it. I saw the high-level technology that Japan boasts and that can be used in other parts of the world.

Many transition finance [proceeds] are used for research and development that leads to low carbon and decarbonization. It is not clear exactly what kind of effects these investments will have. What is important is to show that the path of the transition toward

net zero is clearly indicated, and that the R&D investment is in line with that strategy. We advise issuers how to explain that to investors, and we actively supplement information from investors so that no one is misled.

Also, it is not limited to the Japanese market, but Japanese issuers often meet with investors one-on-one after the publication of the framework, so that they can hear the voice of the management team and make investment decisions based on their understanding of the issuer’s strategy and framework.

Also, with regard to reporting, it is necessary to disclose the appropriation of funds and their effects. Recently, investors are actively engaging with issuers. I met with a prominent Japanese investor the other day, and he told me that he’s engaged about 200 times a year. Issuers that have implemented transition financing are also willing to engage actively with investors, which is a good step.

**Mortimer, Nomura AM:** In general, Japanese investors are pragmatic and open-minded. If I go back a little bit to the greenwashing question, this is obviously relevant for us as investors to explain, as to why we are choosing the securities that we do and why we are building these portfolios the way that we do.

It obviously does serve a purpose to keep people aiming for high quality, aligned and standardised approaches. The point was made that having a national transition pathway is something that needs a lot of work. It’s something that we should really be

respecting and putting a lot of a lot of weight on. Also at the same time, greenwashing claims can be a red herring, because if it’s being used simply to say no to things from an ideological perspective, that is not very productive.

What I tend to give as advice to issuers is to give us a positive vision for the future. We are going to need energy sustainability, energy affordability and energy security, all at the same time. There’s going to be demand for those. Climate solutions, trends in transition, and climate transition solutions that deliver on all three of those in a solid and steady way will be the real winners. I’m happy in that sense to take a little bit of brown risk onto my books, if I think it will pay off in the future, delivering deep decarbonisation with energy security. That’s the kind of approach that investors need to take, so we can move to a more nuanced discussion around greenwashing or what counts as sustainability.

**GlobalCapital:** And are you seeing investors thinking that way?

**Mortimer, Nomura AM:** Yes, I think we have to, just having observed the global conversations that are going on around this. We have moved away from a focus on excluding products to thinking about what actually works in the real world as responsible investors. For companies in the hardware sector, we can give them the capital and support they need to deliver solutions.

There has been globally, not just in Japan, a growing sense of alignment. Transition finance was

*“Transition is a really great way for Japan to tell its story in the market. For me, the big promise of transition finance is that we can take the sustainability and investment concept forward from green and brown binary to one that is a lot more nuanced, a lot more practical and with the real actual ability to deliver net zero transition.”*

**Jason Mortimer, Nomura Asset Management**





*“ESG has to be integrated into ordinary investment. It has to be like common sense, something that’s natural, that’s inherent in any investment. We want to make sure that while green is important, that we do transition to carbon neutral as well. It has to be done in parallel.”*

*Fumihiko Kajikawa, METI*

a very controversial topic. We still have a lot of things to figure out and there’s still a lot of crosstalk and parallel approaches. But it’s important for Japan to say, this is what works for us, given our national circumstances. This is a strategy that we are going to be able to do in the real world, and not just pledges. That will breed respect and success and that’s the way to do it.

**GlobalCapital:** When Japan sold its transition bond, what was the reaction among investors to ammonia co-firing with coal and hydrogen products — and what differences did you see between domestic and international investors and the way they were looking at this product?

**Asakura, MoF:** Explaining very clearly how we are going to use the proceeds of the bond was critical.

In terms of transition, it could include things that are not completely net-zero. There may be use of technology that’s not established yet but is helping with progress towards decarbonisation. There are uncertainties and questions on transition, which is why many investors can’t invest in it yet, and in financial markets, this uncertainty on investments is disliked widely. We have tried, and will keep trying, to disclose all the recommended disclosures so investors can understand as much as possible.

**Kajikawa, METI:** The initial bond issued in February didn’t include

ammonia co-firing projects in the use of proceeds, so this was not discussed that much during the investor relations meetings. But Japan is incorporating this co-firing technology in its framework, so we are generally getting more inquiries on this and are explaining to investors how the co-firing technology in the process of achieving zero-emission thermal power will be changing going forward.

Demonstrations of co-firing in boilers for power generation are progressing smoothly. But when you think about ammonia use, the supply chain is not ready to provide that much amount. The next step would be to support more ammonia or hydrogen use instead of using fossil fuel. There could be more focus on that, not just ending up with a co-firing mechanism but doing it in an economical way that should lead to zero emission. To what extent is that possible? We would like to explain it by understanding what Japanese companies are doing.

**Seo, IHI Corporation:** I mentioned that we are thinking of using only ammonia exclusively. Co-firing is not the purpose, but the ultimate purpose is to make it 100% ammonia. If ammonia cannot be supplied in a sustainable manner, then the exclusive co-firing technology will not work, so we have to establish a strong supply chain for that purpose.

Also, we have to think about the players in technology and think about players in the climate change landscape. If there is more

upstreaming of ammonia, how that can be turned into green is an important point. Creating or formulating that kind of a value chain is an important scenario to head towards being carbon neutral. Of course, looking at each and every element is important, but whether people are thinking about creating the entire value chain is going to be a very important point.

**GlobalCapital:** On the regulatory front, the speakers here alluded to Japan’s transition framework. METI has active in terms of the development of the transition market and ensuring all the regulatory bits and pieces are in place. What should be the next steps from a regulatory angle to take the market forward?

**Kajikawa, METI:** We already have the ICMA handbook on the green bond principles. We used that to make the guidelines for Japan. Broadly, the pathway to transition may differ depending on the industrial sector. For example, steel will be different to cement. For the hard-to-abate industrial sectors, we need a roadmap so we are carbon neutral by the end 2050. By creating these roadmaps, we’ve made progress.

What’s challenging is that every industry will work within the industry and the financing industry is working separately. If they work separately, it will not go well. So, this may be different from other countries, but Japan is working on regulations for more collaboration between sectors.

From 2028, there will be some added constraints on CO<sub>2</sub> emissions, like carbon surcharges for fossil fuels. We call this the “Pro-Growth Carbon Pricing Concept”, and we are in the process of creating a mechanism to use it as a source of redemption for GX Economy Transition Bonds in the future.

Right now, we are sending out a message that we should follow the GX Promotion Act, but eventually there will be incentives that will motivate the financial sector and the industry to make investments into transition. In order to create a transition finance market, we are in a stage of collaboration, but gradually as we proceed, regulations on emission trading or other regulations to be imposed will be discussed.

**GlobalCapital:** Can you talk more about the MoF's future fundraising plans, both in the domestic market and globally, across ESG or non-ESG related instruments?

**Asakura, MoF:** Japan's plan for the issuance of Japanese government bonds for FY2024 (from April 2024 to March 2025) was announced at the end of last year. When it comes to transition bonds, the plan is to raise a total of ¥1.4 tr. A further plan was announced in mid-March, that the ¥1.4 tr is to be divided into the sale of ¥350bn of bonds four times, to facilitate easier purchase by investors.

In May, we will issue a 10-year bond, to be followed by a five-year, 10-year and five-year again in July, October and January 2025. We want to increase the amount of the bonds outstanding for each tenor in order to increase the liquidity in secondary market.

**GlobalCapital:** What are IHI's future funding plans like?

**Seo, IHI Corporation:** We will continue with what we have been doing and will continue to explore opportunities to sell transition bonds. As an operating company, we have to go with the flow, face challenges and move forward.

**GlobalCapital:** When it comes to the ESG market's development, what are you most optimistic about, and what are you most worried about?

**Mori, Nomura Securities:** First of all, the transition market will continue to expand. The GX strategy that's driven by the Japanese government could become a model for other Asian nations. You have the European way of thinking, the Asian way of thinking and the Japanese way of thinking about transition, all of which are different, but ICMA in February issued a paper trying to redefine transition finance. By organising this definition of transition finance, I believe it will lead to a more positive trend toward transition finance. I have no particular concerns.

**Asakura, MoF:** Broadly, I'm optimistic about ESG as the GX that Japan is trying to achieve is something that is truly necessary. The

Japanese government is very serious about promoting this. I know some people are dubious about whether this is really viable, but if we don't do this, how can we accomplish carbon neutrality? There's no option but to pursue this. This is one of the reasons why we can be optimistic about the future of ESG.

In terms of concerns, there are many people who are just assessing what's visible and their assessment or evaluation of whether something is ESG compliant is determined simply on that. Specifically, there are technologies that have not been established yet, that are not visible. People say that's not good and they tend to invest in things that are more certain. Green is easy to evaluate because it's quantifiable, but the transition bond that we issued — two tranches of ¥800bn — is less so.

Broadly, visible things are easier to understand but we have to remember that there's technology working behind the scenes that we need to evaluate and make a decision on. There will be naysayers, but we need to challenge them, and we need to evaluate whatever's not visible as of today, and make a decision on that.

**Kajikawa, METI:** ESG has to be integrated into ordinary investment. It has to be like common sense, something that's natural, that's inherent in any investment. We want to make sure that while green is important, that we do transition to carbon neutral as well. It has to be done in parallel. That's the way towards approaching carbon neutrality. The labelling is transition, but this is really about promoting GX and we want to communicate and

spread this to Asia as well. That's important to us.

**Seo, IHI Corporation:** It's an ideal to say that ESG is part of ordinary investment but the pathway to that would be a big challenge, perhaps the greatest challenge for humankind. With all these different technologies available in the world, there are so many hurdles to overcome. Can we actually overcome that barrier? The hope is that we can. We have so many people who want to join our company, not just Japanese, but also internationally, who are interested in our company because they find that all the challenges we overcome are interesting. Transitioning and becoming net zero is a challenge, so leadership from people will be key.

**Mortimer, Nomura AM:**

Transition finance is both the big hope and the biggest worry, mainly in the sense that there will be more than one way to get there. When it comes to climate transition, sustainable finance is at crossroads right now. We've seen energy costs go up, we've seen the short-term downsides of some policies, and there is political pushback.

Are we going to fall back to more of an ideologically based framework, that green is good, and brown is bad? Or are we going to push through some nuance here? There are multiple pathways, so we need to think of a practical way that works for every country, with its own national circumstances. That's the real way forward, and that's my hope. If, however, we cannot agree on that and people want to keep an ideological stance to investing, then it's going to be difficult to get the transition done. GC

*"It's an ideal to say that ESG is part of ordinary investment but the pathway to that would be a big challenge, perhaps the greatest challenge for humankind."*

**Akihiro Seo, IHI Corporation**



# ***TOGETHER WE GROW***

**JBIC** has offered wide variety of Japanese Government-guaranteed bonds in different maturities (3-10 yrs) and currencies (USD, EUR and GBP). JBIC started its issuance of Green Bonds in 2022 and will go beyond for a “greener” world.



Jan 2023

USD 2,500,000,000  
4.250% Guaranteed Bonds  
due 2026

Feb 2023

EUR 1,000,000,000  
3.125% Guaranteed Bonds  
due 2028

Apr 2023

USD 2,500,000,000  
4.250% Guaranteed Bonds  
due 2026

July 2023

USD 1,500,000,000  
4.625% Guaranteed Bonds  
due 2028

Oct 2023

USD 500,000,000  
4.875% Guaranteed Bonds  
(Green)  
due 2028

Jan 2024

USD 1,000,000,000  
4.375% Guaranteed Bonds  
due 2031

- 100% Japanese Government-owned
- Frequent and leading issuer of international bonds explicitly guaranteed by the Japanese Government since 1983
- Moody's: A1 / S&P: A+



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