

The first working-level meeting of the Japan Impact-oriented Financing Initiative was held.

The first working-level meeting of the Impact-oriented Financing Initiative was held online on Friday, 28 January 2022. The meeting was attended by a total of 64 participants, including 20 signatories, 5 prospective signatories, 5 supporters from domestic organisations and 6 observers who are considering joining the Initiative.



At the meeting, new prospective signatories and the Steering Committee members were introduced, and the participants discussed the ways in which financial institutions should be impact-oriented in their management, discussed the cooperation with asset owners, introduced the trends related to the International Sustainability Standards Board (ISSB), discussed the role of financial institutions, and also discussed expectations for future working-level meetings.

1. Introduction of prospective signatories and the Steering Committee members

The following five new signatories, scheduled to sign the Initiative on 1 February 2022, provided comments on their own activities related to impact investing and their expectations for collaboration among the signatories of the Initiative.

[New signatories]

- Music Securities
- MAKOTO Capital
- Dream Incubator
- Wiz Partners
- GLIN Impact Capital

Next, the eight members of the first year Steering Committee gave their comments (in the case of an absent member, a substitute member spoke). The Steering Committee members for the first year were appointed by the Secretariat based on the background of the Drafting Committee at the time of the establishment of this Initiative, as approved at the First General Meeting of Representatives. The committee is scheduled to meet regularly, about once a month.

[Steering Committee Members]

- Tsukasa Kanai, Sumitomo Mitsui Trust Holdings
- Minoru Matsubara, Resona Holdings
- Hiroko Ishii, The Dai-ichi Life Insurance Company
- Masahiro Kato, Mitsubishi UFJ Trust and Banking Corporation
- Masatsugu Ikeda, The Shizuoka Bank
- Norio Ishii, Kyoto Shinkin Bank
- Akitaka Wilhelm Fujii, Real Tech Holdings
- Mizuho Hirata, Shinsei Bank

Mr. Masaaki Amma, a member of the Secretariat, added that the agenda for today's meeting had been prepared by the Secretariat and was not fully comprehensive. He expressed the expectation that the agenda for the future meeting will be formulated after the Steering Committee will be in operation, and after active discussions.

2. The Impact-Oriented Management of Financial Institutions

The Impact-oriented Financing Initiative aims to ensure that financial institutions are impact-oriented in their management in order to fulfil the role expected by society. The three signatories shared cases of their efforts to achieve the impact orientation.

First, Mr. Tsukasa Kanai from Sumitomo Mitsui Trust Bank presented the impact finance policy and initiatives of Sumitomo Mitsui Trust Holdings. (See Reference 1)

Mr. Kanai explained how the company developed its impact orientation through the process of examining the value creation process, and the internal discussions that took place. Initially, when the company created the value creation process in 2017, they did not really have the concept of "impact" in mind, but as they pursued integrated thinking, they began to discuss "impact", which goes beyond value creation for stakeholders, and an impact orientation was introduced. There have been in-depth internal discussions on how capital (not only financial capital but also social and environmental capital) can be organically aligned and enhanced through the value creation process. Currently, the board of directors is discussing how to link purpose and value creation and how to incorporate an impact orientation into the value creation process.

In 2019, the company launched the world's first positive impact finance loan, and since then, the asset management division has established impact funds for domestic and global equities. In the last year, they have also started real asset impact investing and advisory services for venture capital. He also shared with us that the company has formed a Technology Based Finance team to analyse impact based on their expertise, and that the company plans to launch a 500 billion JPY impact equity fund by reallocating the reduction in cross-shareholdings to equity investments in carbon neutral sectors.

Next, Mr. Teruki Hanashiro from Resona Asset Management presented the impact-oriented approach of the company. (See Reference 2)

Mr. Hanashiro explained about the company's "DNA", "DNA of change" and "DNA of ambition to realize a better and more prosperous society through finance". He explained that since the corporate revitalization in 2003, it has been working based on the DNAs, the company always considering business from the starting point of social issues and pursuing the happiness of customers.

In addition, from the perspective of responsible investment, the concept of "universal ownership" was introduced in 2013, focusing on external diseconomies and encouraging companies to take action to solve ESG issues as well as supporting the enhancement of sustainable corporate value. In order to give more effect to the movement towards the resolution of these issues, he said that the company's purpose of existence has been examined.

Specifically, in 2018, the company outlined its vision of the economic system of the future, and in 2019, it outlined the materiality matrix of key issues that must be addressed in order to realize the vision of the economic system, and in 2020, it defined its purpose. He also mentioned that stewardship activities are considered to be the very essence of being a

responsible asset management company, and are discussed as a fundamental part of management, and that emphasis is placed on demonstrating intentions as an asset management company.

Regarding the impact investment activities initiated in 2021, he explained that impact investment is linked to corporate materiality, and that the company is working with a consistent focus from materiality to product. In addition, he explained that when setting the themes for impact investment, the company carefully considered not only from the perspective of investment managers but also from the perspective of clients, considering whether the themes could be applied to their own affairs, what issues were important for building a sustainable society, and what themes they could empathise with.

Lastly, Hiroko Ishii of Dai-ichi Life Insurance gave a presentation on the impact orientated approach of the company. (See Reference 3)

She began by explaining the history of the company, explaining that when the founder established the company as the first mutual company in Japan, he had the intention of creating a system to return high dividends to customers and to solve social issues through the life insurance business. Before World War II, the company tackled social issues such as the prevention of tuberculosis and the improvement of public health, and from the post-World War II reconstruction to the period of rapid economic growth, the company provided funds for the development of social infrastructure. The company announces that it started impact investing in 2017, but it has been investing in unlisted companies since the pre-war era, and has continued to invest in companies that bring about social change.

In the mid-term management plan announced in 2021, the group vision was renewed and the new vision "Protect and improve the well-being of all" reflects the desire to enhance the happiness of all people, including future generations. The new vision was formulated by over the course of a year of discussions led by the management team. In addition, she shared the process of defining key issues and materiality based on the vision, and incorporating them into concrete measures.

She explained that impact investment had been incorporated into one of the materialities, "Contributing to society through responsible loans and investments", and the goal of "increasing investments and loans that contribute to creating a positive impact on society" had been clearly stated and was being addressed in the management strategy. She also shared the progress of impact investing, including the fact that since the start of investment in unlisted companies in 2017, it has expanded to include listed equity investments and fund investments, that it invests in five key themes, and that it aims to apply the concept of impact investing in ESG theme investments.

After the presentations by the three speakers, Masaaki Amma of the Secretariat (SII) made some comments. He noted that in order to properly incorporate impact orientation into the management of a financial institution, it is necessary to carefully discuss it at the management and board meetings, and that the larger the financial institution, the more difficult it is. There are three ways to go about this: firstly, by adopting the concept of integrated thinking and clarifying the value creation process, as in the case of Sumitomo Mitsui Trust Holdings; secondly, by referring to the UK Stewardship Code, as in the case of

Resona Asset Management, and incorporating it into the investment philosophy and strategy from the perspective of the purpose of the financial institution's existence; and thirdly, as in the case of Dai-ichi Life Insurance, by pursuing the interests of its stakeholders, including its customers, in a broad way that includes the next generation and the local community as a whole, thereby enhancing its impact orientation, with adopting the concept of integrated thinking and perspective management as well. He also emphasized that the most important thing is not only to set up purpose, but also to actually implement and manage the purpose in concrete ways, and to steadily integrate it into the operations of financial institutions. In recent years, VCs have become more impact-oriented, and the number of VCs of PRI signatories has been increasing to ensure that negative impact is not created.

Dr. Takeshi Kimura, a member of the PRI board and an observer at this meeting, then commented on the approaches to ESG investment by VCs, saying that according to a survey of VCs conducted by the PRI, 80% said that they were not ready for ESG incorporation, and almost 90% said that they wanted to deepen their understanding. He also pointed out that there is a lack of awareness of the "S" in ESG. On the other hand, he introduced the trend of increasing VC interest in ESG, for instance, the Venture Capital Network, PRI's information exchange platform, has about 70 participating institutions. In addition, PRI collaborates with VenturesESG, a VC initiative that aims to improve understanding of ESG policies and practices, which has over 170 participants.

A question was raised by a participant on the methodology of Impact Measurement and Management (IMM). In response, Mr. Kanai of Sumitomo Mitsui Trust Bank explained that the IMM methodology does not differ for each asset class, but the boundary is different. He explained that PIFs and listed equity investments are based on the same approach, which is to identify areas of impact across a wide range of business sectors and regions (analysis using UNEP FI tools, etc.), while real assets and VC investments are more limited in scope but pursue depth. He also mentioned that monitoring is also important, and that engagement with the recipient is necessary after setting KPIs at the beginning, and that the results of KPI monitoring are disclosed on the website because visualization is important.

3. Promotion of collaboration with asset owners

At the first General Meeting of Representatives, it was agreed that the signatory institutions would work together to promote collaboration with asset owners in order to promote impact-oriented investments and loans. In light of this, Mr. Amma, the Secretariat, explained again the importance and necessity of reaching out to asset owners.

Ms. Hiroko Ishii of Dai-ichi Life Insurance then shared the activities of the Japan Stewardship Initiative (JSI), an initiative to promote stewardship activities in Japan by providing a platform for discussion between asset owners and asset managers. As a member of the steering committee of the Asset Owner Working Group, she shared her view that asset owners such as pension funds are mainly interested in the content and outcomes of ESG investing, and not yet strongly interested in impact investing, and that there is a need to promote impact investing in order to deepen the understanding of impact investing. She

also shared that JSI will hold a webinar in March, to explain an overview of impact investing and its potential for the future.

Next, Ms. Mihoko Matsui of Japan Post Insurance, an asset owner that is trying to promote impact investing, shared the process of promoting impact investing at the company. After the fraudulent contract issue, the company went back to its management philosophy and asked themselves what they could do to show their stakeholders that they were changing, and one answer they came up with was impact investing. She shared with us that it took some time for the employees to understand the concept of impact investing and to start working on it, because there were not many examples and it was difficult to imagine how it could be applied in practice. Currently, they are working on the Impact "K" Project, which aims to promote the concept of impact as something that can be visualised as an outcome. She shared that they are currently discussing the concept of return.

Next, Mr. Akitaka Wilhelm Fujii of Real Tech Holdings, an impact investment fund manager, shared his views on trend of investor's interest. He said that the investor's view of the fund has changed significantly since the fund was launched a couple of years ago. While there was not much attention at the beginning, as the fund is now communicating with LP investors for its next initiative, there is clearly a greater interest, especially in social oriented businesses.

Following this, Dr. Kimura from the PRI shared the trends among asset owners, particularly pension funds. He said that the role of the asset owner is very important in impact investing because no matter how many investments asset managers make, it is meaningless if the intentions of the asset owner are not communicated. He also pointed out that in the case of impact-oriented investment, the focus is often on engagement with the companies, but it is also important for asset owners to strengthen their engagement with the end beneficiaries. In other words, they need to understand what impact their clients and beneficiaries expect and what they want the world to be like in the future, then they need to incorporate this into their investment strategy and also communicate this to asset managers. In Europe, pension funds are already taking steps to understand the values and preferences of their beneficiaries and clients with regard to sustainability impact and incorporate them into their investment process, and this is expected to become a focus of sustainable finance policy and regulation in the future. He said that what is happening in Europe will have a ripple effect on Japan in the future, and that it will become more important in Japan in the future.

Mr. Masahiro Kato, Mitsubishi UFJ Trust and Banking Corporation, followed with some comments. As Ms. Ishii pointed out, asset owners are currently seeking clarity on "what ESG is" and "what impact is", and it is necessary to disseminate information on the basics of ESG and impact investment from "the beginning". On the other hand, looking at corporate integrated reports, many companies have started to use the word "impact", and he suggested that, for example, in the case of approaching corporate pension funds, it would be possible to promote impact investment by disseminating information to companies that have a high level of interest in the subject.

Ms. Nao Sudo from Impact Frontiers, who attended as an observer, shared information on global trends in impact investing by asset owners. According to Ms. Sudo, there are about

300 asset owners participating in impact investing, and the number is increasing every year. She noted that recent surveys have shown that the environmental sector has science-based targets, while the social sector has more qualitative targets, and that asset owners are seeking more impact data. In the U.S., the history of impact investing is much longer than in Japan, and each institution has been conducting impact evaluations through a process of trial and error, saying, "we won't know until we try".

4. Trends of the International Sustainability Standards Board (ISSB)

The secretariat shared information on the trend of the International Sustainability Standards Board (ISSB). (See Reference 4)

Firstly, she explained that the IFRS Foundation announced the following three points in November 2021.

- The International Sustainability Standards Board will be established as a new organisation alongside the International Accounting Standards Board (IASB).
- By June 2022, the IFRS Foundation will merge with the Climate Change Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF, formed in June 2021 through the merger of the IIRC and SASB).
- The Technical Readiness Working Group (TRWG) publishes two prototypes on climate-related disclosures and general requirements for sustainability disclosures

In addition, she presented the future activities and timelines of the ISSB and the contents of the two prototypes published by the TRWG. She also shared information on the post-2020 landscape of sustainability-related disclosure. She noted that the integration of standards and frameworks for sustainability-related disclosure is underway, including the restructuring of the organisations, and that the trend is towards integration into the standards to be developed by ISSB. The ISSB prototype is basically based on single materiality, but also includes the concept of double materiality if it can be reasonably expected to have an impact on the entity's future cash flows. In addition, it also incorporates the concept of dynamic materiality, which means that materiality can change over time.

Mr. Katsuji Imata of the Social Impact Management Initiative (SIMI), a supporting organization of the Initiative, provided additional comments on the disclosure of impact information. Firstly, regarding the materiality discussion, there is a growing consensus that single/double materiality should not be viewed as a dichotomy, because, as dynamic materiality suggests, the factors that influence corporate value change over time. He also introduced the argument that the effects of impact information on corporate value will change over the medium to long term, and that the impact path will also be different for different industries and sectors.

Mr. Imata pointed out that the ISSB has just started and its board members have not been decided yet, but there is a possibility that a member from Japan will be included in the board, and that a Sustainability Standards Committee will be established in Japan, from which it will be possible to submit opinions for the ISSB and participate in the rule-making process. In the future, disclosure standards will be developed in Japan, and it is expected

that sustainability information will be included in securities reports as necessary information for investors to make investment decisions.

5. The role of financial institutions and the impact orientation

Mr. Minoru Matsubara of Resona Asset Management gave his comments on the impact-oriented approach of financial institutions. He suggested that impact is an important part of the future of finance, what finance is aiming for and what finance is all about. In the age of stakeholder capitalism, each stakeholder has its own value of capital and financial institutions should think about how to work with such capital. He also mentioned that there is still a gap between the "ideal society" that financial institutions aim and the "possible society" (such as the society depicted in the IPCC reports), and the role of finance is to bridge the gap. He noted that there are two specific approaches: "engagement" (supporting companies) and "impact" (working together with companies on the path to the ideal society), and that promoting these approaches is the key to being impact-oriented. He also expressed his hope that each financial institution will work together to realize an impact-oriented approach.

6. Requests for future working-level meetings

The following suggestions for future working level meetings were made by signatories and supporting organisations. The Steering Committee members will take the lead to set the agenda for discussion, taking into account the following requests.

- Discussion on impact investment not only in Japan but also outside Japan, especially in developing countries. In particular, as discussed at COP26, there is a shortage of finance to meet the 100 billion goal, and development finance institutions are expected to contribute by guiding private sector finance, so we would like to discuss collaboration overseas. (Megumi Muto, Japan International Cooperation Agency: JICA)
- We recognized the importance of the approach to reduce negative impact as much as possible. As a regional financial institution, we would like to deepen the debate on the issue of financial exclusion and whether it is enough to comply with the guidelines on management guarantees. (Takeo Miyagaki, Tajima Shinkin Bank)
- If it would be useful for participants, we would like to share the details of our ESG policy, which we formulated last year, in the next session. (Nagisa Shigetomi, Global Brain)
- When impact investment is expanded from the conventional focus on PE to other asset classes such as listed equities and listed bonds, we will need a framework that is different from the conventional IMM, and we would like to discuss this. (Mr. Toru Terasawa, Asset Management One)
- As an asset manager, I am working on SIBs to solve social issues in rural areas, and on the development of mechanisms to solve social issues in developing countries (in cooperation with JICA), and I would be grateful if you could discuss these new methods of impact finance. For example, we would like to learn more about active transition finance initiatives overseas. (Kyohei Hosono, Dream Incubator)

- Although this will be a theme for the second half of the working level meeting, we would like to discuss the practical aspects. For example, we would like to discuss the concept of impact investment in loans and bonds, effective engagement methods, and the definition of positive and negative impact (Leigha Miyata, Mitsubishi UFJ Bank)
- Impact investment may not have a clear shape or path to the future, but I believe that the platform of this Initiative is a valuable space to try to find out together what we cannot see now. In December, the Impact Task Force report was released, and there has been a qualitative evolution of the debate on impact investing, but impact investing is very much about local context. The launch of the Impact-oriented Financing Initiative in Japan has attracted a lot of attention, and I hope to make a significant impact through this platform. (Masataka Uo, GSG National Advisory Board)

7. Schedule for the future

The Secretariat shared that working level meetings will be held every three months, steering committee meetings will be held on a monthly basis and a general meeting of representatives will be held in December.

References:

1. [SUMITOMO MITSUI TRUST HOLDINGS Sustainability Report 2020/2021](#)
2. りそなアセットマネジメント「金融機関経営におけるインパクト志向の在り方について」
(See attachment, Japanese Only)
3. 第一生命のインパクト志向のあり方(See attachment, Japanese Only)
4. 第1回ワーキングレベル会合資料(See attachment, Japanese Only)

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