JSIF

2013 Review of Socially Responsible Investment in Japan

Japan Sustainable Investment Forum

Japan Sustainable Investment Forum Edition

Disclaimer

The information contained in this report is offered solely for informational purposes. It is provided neither to promote securities transactions nor to recommend any securities investments. We offer no guarantees regarding the accuracy or completeness of any information presented, which may change without notice. Although the utmost effort was made to ensure the accuracy of information and figures in this report, we assume no responsibility for any damages arising directly or indirectly from errors and omissions, or from any decisions or actions taken based on this information.

Contents

Foreward

Two years have passed since I contributed the “foreward” to the third edition of the Review of Socially Responsible Investment in Japan. At that time, socio-economic circumstances were severe due to the Great East Japan Earthquake, financial crises in Europe, the appreciation of the yen, and the rising presence of emerging nations. However, two major pieces of the framework for SRI market creation—the release of the Guidelines on Responsible Investment of Workers’ Capital by the Japanese Trade Union Confederation (RENGO) in December 2012 and the independent initiative the Principles for Financial Action towards a Sustainable Society (Principles for Financial Action for the 21st Century) (November 2011) launched by financial institutions—were established, giving hope for the future.

After two years, what kind of changes have we seen? Unfortunately, we have not seen a substantial amount of major changes. Publicly offered SRI amounts have stayed relatively flat. Also, the influence of the Guidelines on Responsible Investment of Workers’ Capital has yet to make an obvious impact on total assets under management in the Japanese stock market. Various activities and study sessions have been held by signatory companies of the Principles for Financial Action for the 21st Century to discuss initiatives they are engaged in, but we have yet to see a major movement in operations or financial product development. However, that does not mean the SRI industry is in a slump—qualitative changes are occurring steadily.

Environmentally friendly real estate, a new subject featured in our previous installment, has a market size of over ¥3.0 trillion according to this report’s preliminary calculations. Also, in regards to community investing, micro investments (primarily the social phenomenon of disaster relief funds) have expanded to a market size of a little less than ¥10.0 billion. We are seeing the spread of investments that differ from the conventional investing image of listed shares, investment trusts, and bonds. Environmentally friendly real estate does not just reduce the burden on the environment; it is an investment that has a direct impact on cost reduction due to energy conservation, and the rise of renting tenants. Micro investing is a new investing concept that values empathy for social projects over economic profit. By drawing social attention to this new investing tool that pursues both returns to society and returns in money, we are anticipating positive effects such as changing the mindset of Japanese people, who tend to be savings oriented, toward investing, and influencing mainstream investing methods. NISA (Nippon Individual Savings Account) also has the potential to be an excellent opportunity to spread these kind of investments to individuals.

Additionally, the movement to create integrated reports is picking up speed as of 2014, and we anticipate the advancement of collaboration between companies' CSR and IR departments, which has been neglected up until now. How can we explain ESG as a corporate strategy? Reconsidering the corporate value of ESG from the perspective of corporate management, we are expecting an increase in companies that attempt to appeal to investors. We are also anticipating that economic stimulation from "Abenomics" and stock market activity will indirectly support the SRI market.

This report was created by the members of the JSIF thanks to the volunteer efforts of Japan's leading experts in their respective fields. In the growth of SRI with positive factors on the rise, we want to capitalize on this opportunity and take the SRI market to the next level. It is the desire of the members of the JSIF for this report to be used as a tool to achieve that purpose.

We would like to express our gratitude to Edge International, Inc., who share similar hopes for SRI in Japan, and cooperated with the editing, editorial design, and English-language translation of this report; Quick Corp., Daiwa Securities Group Inc., Ernst & Young ShinNihon LLC, and the Development Bank of Japan for their sponsorship; as well as the Trust Sixty Foundation for their assistance in the production of this report.

We would also like to offer an additional thanks to Kinzai Corporation, Daiwa Securities Group Inc., Edge International, Inc., and KPMG AZSA Sustainability Co., Ltd., for their sponsorship of the SRI report contest (see Page 43).

In addition, we would like to also thank the 27 member companies and the 75 private members for their support of JSIF activities. We would like to express our utmost gratitude for your support thus far and ask for your continued support and cooperation as we work toward having a true SRI market take root in Japan.

February 2014

Mariko Kawaguchi

Executive Summary

Chapter 1. Individual Investors and SRI

With the hope of "Abenomics," stock prices have risen rapidly. As a result, in the two years from September 30, 2011 to September 30, 2013, the net assets for all Japanese publicly offered investment trusts increased by 24.6%, and the number of trusts increased by 12.6%. However, at the same time, the number of publicly offered SRI trusts fell from its peak of 93. The number of trusts reaching maturity increased, and since April 2011 there have been no new trusts created, and net decreases have become consistent. Net assets for SRI trusts have dropped 7%, from ¥261.4 billion to ¥243.5 billion, although these results were mainly supported by robust market conditions rather than new capital inflow.

More than 70% of capital remains focused on investment trusts with the environment as a screening standard and environmentally themed international equity funds in particular represent about half of total capital.

As of September 30, 2013, the total amount of sales of bonds based on social contribution themes had reached ¥790.0 billion, with the total amount of outstanding bonds being ¥498.3 billion, a remarkable expansion.

Looking at these bonds by social contribution areas, 29 bonds, sales of which amounted to ¥267.9 billion, were for ventures addressing climate change; 11 bonds, sales of which amounted to ¥182.6 billion, were Vaccine Bonds; 9 bonds, sales of which amounted to ¥155.7 billion, were for ventures addressing poverty (of which 5 were MFIs); 3 bonds, sales of which amounted to ¥101.7 billion, were for ventures addressing water issues; 3 bonds, sales of which amounted to ¥47.6 billion, were for food and agriculture related ventures; and 2 bonds, sales of which amounted to ¥34.3 billion, were for education-related ventures.

Since summer 2010, there was a rapid increase in the issuance and sales of bonds for specified institutional investors including regional banks. A total of 20 different types of these bonds have been issued, amounting to approximately ¥25.5 billion.

Small-scale social impact investment, mainly by young people who are greatly concerned by social issues, is sometimes observed, and expectations are rising that impact investment bonds may be a new way to encourage the shift from saving to investment.

Overemphasis on high-interest currencies is becoming an issue that could cause risk. It is important for securities companies to provide investors with explanations of these risk factors. In December 2011, the Japan International Cooperation Agency (JICA) issued an impact investment bond denominated in Japanese yen. This bond was the first JICA bond targeting individual investors. The fact they do not carry any exchange risk is attracting new kinds of investors.

In order to promote the growth of a profound market moving forward, in addition to developing products that promote participation from institutional investors, there is a demand to formulate new guidelines. There is also strong demand for the development of a framework to address the domestic issues affecting Japan. It is not something that has been greatly discussed in Japan to date, but the social investment scheme, so-called social impact bond's based on partnership between government and the private sector, could play a big role in contributing to tackling social issues domestically. It is essential for a comprehensive framework, including one that pertains to investment tax systems, to be established through government–industry coordination.

Chapter 2. Institutional Investors and SRI

1. Owners of Workers' Capital and Responsible Investment

In December 2010, the Japanese Trade Union Confederation (RENGO) drew up its Guidelines on Responsible Investment of Workers' Capital. Following this, RENGO established the Workers' Capital Responsible Investment Committee, which provided support to labor unions for two years through such activities as providing information. In April 2013, RENGO drew up the Implementation Guide Based on the Guidelines on Responsible Investment of Workers' Capital as a guide to put responsible investment into practice. The Implementation Guide examines corporate pensions, and gives concrete steps for affiliates and individual unions to work with funds and business owners to decide on ways of investing responsibly. In June 2013, the Workers' Capital Responsible Investment Council was launched.

In February 2010, the Pension Fund Association for Local Government Officials began ESG-focused socially responsible investment in Japanese equity. In addition it established its Corporate Governance Principles and Shareholder Voting Rights Guidelines.

In April 2010, the Rokinren Bank implemented its Rokinren Socially Responsible Investment Principles. In fiscal 2012, around ¥10 billion was invested.

In April 2013, the Federation of Non-Life Insurance Workers' Unions of Japan (FNIU) became a member of the JSIF and a supporting member of the Corporate Pension Network. In the FNIU, numerous companies and affiliated asset managers are UNPRI signatories. The fact that labor and management are working together in the same direction at the FNIU is an excellent guide for labor and management at other companies in the financial and non-financial industries.

In December 2012, the Cabinet Office introduced the Guidelines on Responsible Investment of Workers' Capital, which emphasized "human resources development and training in the workplace (promotion of female managers)" as one of its criteria in the report on a conference regarding understanding the extent of female management activity in capital markets. Also the Cabinet Secretariat's panel for increasing the sophistication of management of public and quasi-public funds included the following statement in its interim summary of issues, published on September 26, 2013: "Some people expressed the opinion that non-financial ESG factors should be considered as well as financial factors."

RENGO has strongly reaffirmed that pension funds are workers' capital, either contributed by workers or for the benefit of workers, and will continue its activities accordingly.

2. Examples of Responsible Investment by Owners of Workers' Capital

The Federation of Non-Life Insurance Workers' Unions of Japan (FNIU) consists of around 87,000 members from 20 labor unions in the industry, including companies specializing in general insurance, related claims investigation, information systems, and life insurance. It promotes the Guidelines on Responsible Investment of Workers' Capital, and with the opportunities arising from the establishment of RENGO's Workers' Capital Responsible Investment Committee, it began a debate about responsible investment. Corporate pensions are the most representative form of workers' capital funds. Because they can perform governance functions for labor unions, and many companies and affiliated asset management companies in the general insurance industry are UNPRI signatories, it is possible for labor and management to work together in the same direction.

Many corporate pensions in the general insurance industry follow defined benefit pension plans or defined contribution pension plans, and in most cases labor unions participate by sending representatives. In addition, the Corporate Pension Activity Guide for Labour Unions was prepared with information supporting greater knowledge among executives at individual unions and discussions on future policy.

Finally, the FNIU intends that unions will use their policies to check the financial situation regarding corporate pensions, consult with business owners, pension managers and asset management companies, and incorporate responsible investment thinking into their basic policies on asset management to achieve responsible investment.

Chapter 3. Shareholder Advocacy

The Shinzo Abe government's growth strategy covers the ESG issues of corporate governance reform and female employment. Within the accelerating structural reform program, the following measures were scheduled to be completed by the end of 2013: 1. Design a bill to amend the Companies Act regarding the introduction of outside directors, 2. Discuss and establish the principles for institutional investors to appropriately discharge their stewardship responsibilities, and 3. Disclose a summary for a stock index and develop it.

In the first measure, the decision to make outside directors compulsory was deferred, but audit and supervisory committees were made mandatory. Regarding the second measure, standards known as the Japan's Stewardship Code are under discussion. The third measure announced a summary of the stock index, the JPX-Nikkei Index 400, which is based on both business performance and corporate governance factors, to begin operation from January 2014.

Interest is growing in engagement in Japan too, as can be seen in the development of the Japan's Stewardship Code, and there has been increased exercise of shareholder voting rights. However, there has been little public reporting of investor engagement, with only the visible engagement represented by shareholder proposals coming to general notice.

In Japan, shareholder proposals are generally submitted by groups of individual shareholders who have gathered enough people to exercise shareholder voting rights under applicable rules. However, in recent years proposals by individual investors acting alone, funds, and municipal bodies that are major shareholders are becoming increasingly common. They are targeting increased involvement in company management through recommendations to appoint outside directors and demands to increase the transparency of management.

A notable change since 2011 has been the involvement of municipal bodies with companies, such as the Tokyo Metropolitan Government as a major shareholder of Tokyo Electric Power Company and Osaka City as a shareholder of Kansai Electric Power Company. This consists of engagement that includes shareholder proposals and direct negotiation with companies regarding ESG issues.

However, as yet there has been no participation by Japanese UNPRI signatory bodies in joint engagement. Also, institutional investors have been reluctant to support shareholder proposals, remaining cautious about associating themselves with proposals concerning social and environmental issues.

Japanese institutional investors' attitude to ESG has changed steadily. They are gradually becoming stricter in exercising voting rights and are approaching global standards. Ten or more years ago, it was normal to vote on blind trust, but now it is considered reasonable to oppose company proposals and support shareholder proposals. Also, institutional investors are also increasingly pursuing engagement with companies. Almost none of this activity takes place publicly, but there is lively discussion of such issues as the problems of outside director and outside auditor independence as well as compensation and retirement benefits for officers. Companies are responding to this by appointing highly independent outside directors, and introducing performance-related compensation and abolishing retirement benefit systems for officers. In this way, engagement by institutional investors is encouraging improved corporate governance. Discussion regarding the Japan's Stewardship Code represents another opportunity, and there are promising signs of spreading awareness and response to ESG issues.

Chapter 4. Integrated Reporting and Japan

On December 9, 2013, the International Integrated Reporting Framework was published.

The difficulty of achieving sustainable development, due to the short-sighted nature of corporate behavior and the short-termism apparent in investor activity, forms the background for the start of Integrated Reporting (IR). By reporting the future value they aim to create and the visions and specific policies through which they will achieve this, as well as attracting investors in empathy with their style of management, companies can secure a stable supply of mid-to-long-term capital and put into practice the management they have described. To bring about this virtuous cycle, it is important for companies to produce a report that gives a long-term value-creation scenario, including information not only about financial factors but also intellectual property, human resources, stakeholder relations, and other matters. This is <IR>.

The eight Content Elements laid out in the Framework represent the necessary information for creating this virtuous cycle, and the concept of integrated thinking is important for reporting that information.

The key points of <IR> are as follows:

1. Envisages users to be investors and other suppliers of financial capital
2. Focuses on creation of long-term value
3. Pays attention to a variety of capital as sources of value creation
4. Improves the quality of information, enabling a more efficient, productive allocation of resources
5. Is based on integrated thinking, which breaks down internal silos and reduces duplication, unifies reporting processes, and increases efficiency

The Framework categorizes the various sources of value creation into the following six sources of capital: 1. Financial capital, 2. Manufactured capital, 3. Intellectual capital, 4. Human capital, 5. Social and relationship capital, and 6. Natural capital (Table 4-1-4). However, this is just one way of categorizing capital, and it is not mandatory to follow. There is also no need to report regarding all six sources of capital. It should only be seen as one interpretation of sources of capital for value creation.

<IR> does not require exhaustive reporting on all six sources of capital. What is required, however, is an explanation of the value-creation process, what the sources of capital are for increased corporate value, what strategies are applied to make use of them, and what the strategic targets are. Japanese companies hold the concept of the "three-way good"—business that is "good for sellers, good for buyers, and good for society." As <IR> includes a wide range of corporate value alongside return on equity (ROE) and other financial information, it may be a good method for expressing the distinctive nature of Japanese corporate management.

Integrated reports supplement other kinds of corporate reports. As <IR> does not require new reports to be produced, when necessary information is reported through other mediums, it is good to include links to references.

In <IR> practices in Japan, there are many cases where the Framework is being applied to existing annual reports. There are also cases where annual reports and sustainability reports are being combined into a single publication and integrated thinking is applied as much as possible. Current and future developments may lead to an increase in this number and a growing interest in <IR>. These developments include the introduction to <IR> in the report from the expert committee for realizing a desirable market economy, the drawing up of the Japan's Stewardship Code by the same committee alongside the Financial Services Agency, and recommendations based on consideration of the Japan's Stewardship Code regarding equity investment in public and quasi-public funds by the Cabinet Secretariat's Panel for Sophisticating the Management of Public/Quasi-Public Funds.

Chapter 5. Sustainable Finance

1. Principles for Financial Action toward a Sustainable Society

Internationally, there are various guidelines for financial action that aim to create a sustainable society such as the UNEP FI (United Nations Environment Program, Financial Initiative), PRI (Principles for Responsible Investment), PSI (Principles for Sustainable Insurance), and Equator Principles in the project finance business. The Japanese version of these guidelines is the Principles for Financial Action for the 21st Century. Currently, as of the end of September 2013, we have reached 188 financial institutions participating in these principles, including major businesses, regional banks from all prefectures, and credit unions.

The aim of the principles is "to steer society toward sustainability by changing the flow of money to those activities which correspond to such sustainability goals." This statement explains that by directing money where society most needs it, "the sustainability of society increases as a result of the most appropriate distribution of various resources between economic agents, regions and generations." In addition, the two main roles that the Japanese financial services sector plays in order to transform Japan into a sustainable society are specified in the principles. The first role is "to secure the safety of vital infrastructure against natural disasters, and support local communities and national industries in improving their sustainability and strengthening their competitiveness." The second role is "to increase sustainability as a global citizen." This emphasizes the need to cooperate with international organizations such as the PRI and the UNEP FI to work toward solving global environmental and social issues.

To promote the implementation of the principles, an operations committee and business-based/theme-based working groups were systematically established. They are as follows:

1. Asset Management / Securities / Investment Banking Working Group
2. Insurance Working Group
3. Deposits, Loans, and Leasing Working Group
4. Theme-based Working Groups (environmentally friendly real estate, community support)

Entering their second year, working group activities have been enhanced and expanded upon. The range of activities has extended into not only the environment, but also social themes. The Principles for Financial Action for the 21st Century have 188 signatory financial institutions from diverse business categories from all over Japan. However, this kind of framework needs has yet to be utilized effectively.

2. The Growth of Community Investing

In Japan, we had to wait until the start of the 2000s to see community investing. Currently, activity is becoming vigorous among NPO banks, micro investing funds, microfinance institutions (MFIs), and other organizations, making it possible to grasp the overall trends.

NPO banks are continuing to invest steadily. As of December 1, 2013, the number of NPO banks in Japan has risen to 23. Of these, 14 primarily fund social enterprises, 9 primarily provide funding to individuals in financial need. At the end of March 2013, the accumulated total of loans provided by the 14 groups that primarily fund social enterprises rose impressively to ¥2.7 billion. We are also seeing a number of NPO banks actively cooperating with financial institutions, and retail NPO banks have started commercializing.

There has been substantial and positive growth in micro investment funds in the past two years. "Securite' Disaster Area Support Funds" have attracted attention, and feed-in tariffs (FITs) have provided a boost. We are also seeing an expansion of "community-owned power plants," which utilize micro investment funds.

Since 2012, we are seeing an expansion of crowdfunding, which is a way for many people without expertise to raise monetary contributions, primarily by using the Internet. Crowdfunding is attracting a great deal of attention as a new method of fundraising. Currently, over 50 platforms have been created.

Microfinance projects are steadily advancing efforts in developing countries. Political measures to support developing countries are also beginning to progress.

Moving forward, there are two tasks that need to be completed in order to strengthen community investment capacities. First is establishing a systematic framework for general community investing. Second is enhancing capacity by strengthening the network of supporters.

3. Crowdfunding

(1) Japan's Reception to Crowdfunding and Types of Crowdfunding in Japan

The introduction of "READYFOR?" in March 2012 started the spread of crowdfunding domestically. Currently, there are over 50 funding platforms being created.

Crowdfunding is separated into three types, donation type, purchase type, and investment type, based on returns to funders. However, the backbone of all three types of crowdfunding is empathy by the provider of funds in the ideas and beliefs of the recipient of the funds.

(2) Present Condition of Crowdfunding Platforms

1 Donation-type crowdfunding

Online donation sites have existed before the concept of crowdfunding. Recently, donation sites are continuing to be established. From our reviews alone, there are 15 such sites that have been established.

Also, "citizen community foundations," which conduct donation mediation and assistance through purposeful capital from citizens, are being created in various regions. Some hold the opinion that these foundations can be included as an example of donation-type crowdfunding.

2 Purchase-type crowdfunding

Purchase-type crowdfunding is the representative platform of crowdfunding itself. A large amount of "purchase-type" crowdfunding sites have appeared that specialize in specific areas such as craftsmanship, community-based issues, social entrepreneurship, sports, and anime.

Moving forward, one thing that should particularly have our attention is the major Internet business CyberAgent, Inc.'s entrance into crowdfunding. The sponsor of the online donation site "JustGiving Japan" is launching a new site, which is drawing attention as well. Both sites are enhancing appeal by discovering new projects that have a high degree of social attention, such as journalism projects and cinematography projects. Through these trends, it is believed that selection within the field of "purchase-type" crowdfunding will advance.

3 Investment-type crowdfunding

There are three sub-types of investment-type crowdfunding:

- Association type: In addition to Music Securities Inc.'s "securite," micro investment funds may also be included in this type.
- Loan type: Three companies exist that deal with this type. December 2013 marked the first entry to the market by a securities company.
- Share type: This platform does not currently exist in Japan. However, due to future deregulation, it is thought that newcomers to this field will make an appearance.

(3) The Backdrop Drawing Attention to Crowdfunding and Society's Reaction

Two factors make up the backdrop that is drawing attention to crowdfunding:

1 The popularization of social networking sites (SNS), which allows for the easy transmission of empathy to others.

2 It is thought that there was not any other appropriate methods to raise funds for turning ideas for social projects, art, and craftsmanship into action.

A survey of smartphone users found that only 13% were aware of crowdfunding, and only 4% had used crowdfunding before. Judging by this information, crowdfunding's permeation into society is something that has yet to occur.

(4) Improving the Environment Surrounding Crowdfunding

The regulations for donation- and purchase-type crowdfunding are moderate, allowing for the creation of a multitude of platforms. However, this also raises concern for the appearance of fraudulent projects. Meanwhile, in investment-type crowdfunding, it is necessary to register as a type I financial instruments business to be able to handle the recruitment of stock. Also, it is necessary to register as a type II financial instruments business to handle the recruitment of equity funds. In addition to this, it is effectively impossible to directly conduct loan mediation. Strict regulations such as these are an obstruction to newcomers.

In response to these conditions, progress is being made on establishing a crowdfunding council, in order to further manage crowdfunding, define basic principles and guidelines, and to steer the development of crowdfunding in a safe and secure direction.

Additionally, the Financial System Council's working group is considering relaxing regulations on investment-type crowdfunding.

4. Environmentally Friendly Real Estate

The environmentally friendly real estate market, referred to as green building, or sustainable building, is widening the scope of the environmental performance of existing buildings, and is accelerating the pace of expansion. The interest of the market is shifting toward "area development" evaluation, which comprehensively covers the community and infrastructure that support the aggregation of architecture. This "area development" evaluation is the motive behind considering adopting not only the Japanese evaluations system CASBEE, but also LEED. With intercity competition becoming more and more severe, there is a desire to convey the value of an area globally. LEED ND comprehensively evaluates the hard and soft aspects of community revitalization, such as walkability, overcoming the reliance on automobiles for transportation; circulation planning that focuses on public transportation, pedestrians, and cyclists; ecosystem conservation; regional agriculture promotion; and the proximity of a person's workplace to their home. Much like "smart cities," which are talked widely about in Japan, LEED ND does not place emphasis solely on energy.

Japan, under a reduced budget, has continued to build infrastructure such as buildings, roads, bridges, dams, and tunnels. However Japan has also built public buildings that have lost touch with social needs. From this, a choice will have to be made on what infrastructure to keep and what not to keep. While spending the entire public budget would cause distress, once we look at the success or failure of green building for civilians and citizens as more than a regulatory risk factor, new business opportunities will arise. Due to the independent discretion of private businesses, financially independent companies based on the PFI are making a full-scale start. Because of this, it is expected that creation of green (sustainable) infrastructure standards will be a mandatory requirement. Sustainability will be included as a factor for major investors in deciding where to allot operating funds. The expansion of the Global Real Estate Sustainability Benchmark (GRESB) from overseas pension funds is something that supports this expectation.

Within the shift from new building to existing building stock, and the shift from stand-alone buildings to sustainability evaluation that targets a wide area, green building is going beyond borders between industry, government, and academia, and becoming a key word in the creation of a new market. The role that financial institutions play in making the growth of this market sustainable is not a small one. Some anticipated functions of financial institutions include giving advice from a financial perspective on formulating a master plan for urban restoration and revitalization, providing a necessary financial scheme for redevelopment, and acting as a bridge between local governments and citizens. In redevelopment from a community design perspective that includes ensuring the safety of elderly pedestrians, and making plans to revitalize shopping districts, as well as the area management that follows, the entire financial sector, including regional banks and financial institutions, will play an important role in a wide range of areas. There are high hopes for their commitment moving forward.

1 Individual Investors and SRI

1. Investment Trusts

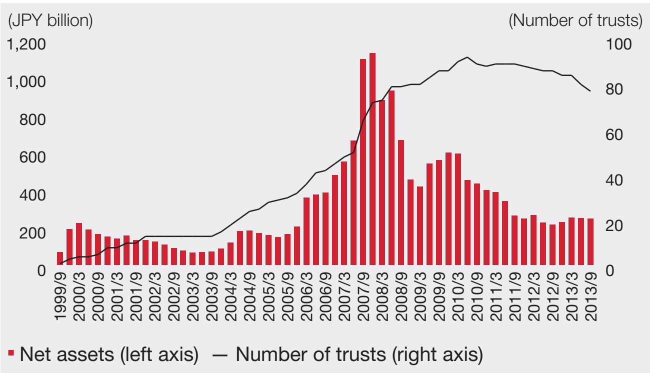
This section mainly covers SRI investment trust trends in the two years from the end of September 2011 to the end of September 2013, following coverage of previous years in the 2011 Review of Socially Responsible Investment in Japan. In principle, data is compiled at the end of each quarter. (Please see Appendix 2: JSIF's SRI Standard for our thinking regarding the scope of calculations in this report.)

(1) The Current State of Publicly Offered SRI Investment Trusts

Examine recent stock market movements and you will find that there has been a long stagnant period following the Lehman Shock; however, with the hopes arising from "Abenomics" and the correction of yen appreciation following the election of Shinzo Abe in December 2012, prices have risen rapidly, recovering to pre–Lehman Shock levels. In overseas markets too, in addition to rallies of individual national economies, stock market performance was strong, supported by the effects of monetary easing policies in the United States and other developed countries. As a result, in the two years from September 30 2011, to September 30, 2013, the net assets for all Japanese publicly offered investment trusts increased by 24.6%, from ¥87.9 trillion to ¥96.8 trillion, and the number of trusts increased by 12.6%, from 4,093 to 4,681, according to statistics from The Investment Trusts Association, Japan.

However, the number of publicly offered SRI investment trusts fell from 90 to 78. In the 14 years since publicly offered SRI investment trusts were established in 1999, the number of trusts reaching maturity has been increasing, while the net assets for SRI trusts have dropped 7%, from ¥261.4 billion to ¥243.5 billion (Figure 1-1-1). Later, I will go into more detail, but these results were mainly supported by robust market conditions rather than new capital inflow.

Figure 1-1-1. Number of publicly offered SRI investment trusts and net assets



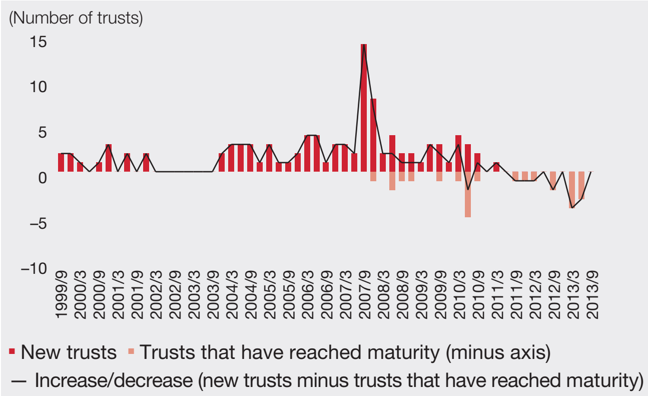
Source: Prepared by author using JSIF material

(2) Publicly Offered SRI Investment Trusts: New Trusts and Trusts That Have Reached Maturity

As Figure 1-1-1 shows, the number of publicly offered SRI investment trusts peaked at 93 at the end of June 2010 and since then has declined. To observe the trend in detail, Figure 1-1-2 displays new trusts as bars on the plus axis and trusts that have reached maturity on the minus axis, with a line chart showing the overall increase or decrease.

Publicly offered SRI investment trusts began to reach maturity from the second half of 2007, and since April 2011 there have been no new trusts, leading to a continual decrease in the overall number of trusts. This trend of no new trusts can largely be ascribed to the effects of uncertain market conditions, yet even with a return to pre–Lehman Shock levels of activity the trend continues.

Figure 1-1-2. Publicly offered SRI investment trusts: New trusts and trusts that have reached maturity



Source: Prepared by author using JSIF material

Table 1-1-3. Breakdown of publicly offered SRI investment trusts by fund type

Fund type	Trusts in operation	Trusts that have reached maturity
Japanese equity	33	6
Japanese bond	0	0
Japanese hybrid	1	1
International equity	31	15
International bond	1	1
International hybrid	12	2
Total	78	25

Source: Prepared by author using JSIF material

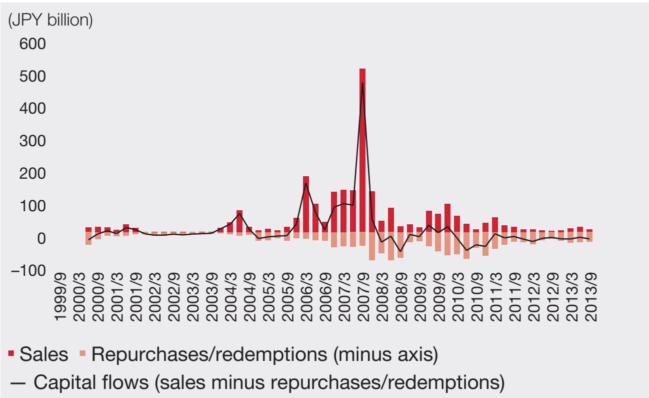
Table 1-1-3 shows the breakdown of publicly offered SRI investment trusts by fund type. As can be seen, there are a comparatively large number of trusts that have reached maturity among the international equity funds, but this is partly due to the fact that in cases where there is a differentiation between trusts with and without a foreign exchange hedge, two types are redeemed simultaneously. Incidentally, the average length of time to reach maturity after establishment for the 25 trusts that have already done so is approximately 6 years (2,206 days). For the 78 trusts still in operation, this figure is approximately 6 years, 10 months (2,483 days).

(3) Publicly Offered SRI Investment Trust Capital Trends

A focus on capital trends brings an even closer understanding of the current state of publicly offered SRI investment trusts. Figure 1-1-4 shows net capital inflow for these trusts with repurchase or redemption figures deducted from sales.

From the first half of fiscal 2008, the amount of repurchase and redemption frequently exceeded the amount of sales, and from the first half of 2010 there has been a consistent trend of capital outflow. In the last two years, there has been net capital outflow of ¥2–3 billion each quarter.

Figure 1-1-4. Publicly offered SRI investment trust capital trends



*No data before March 2000

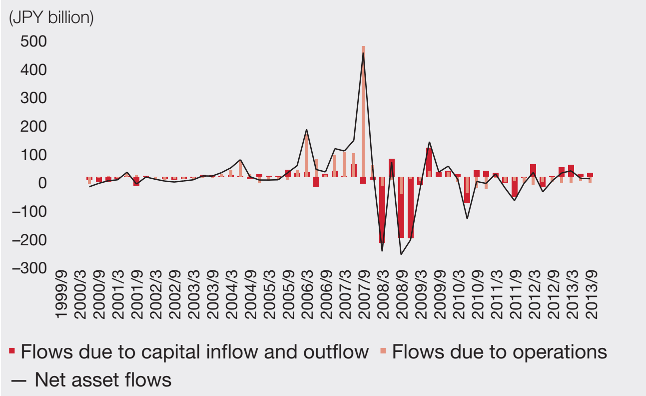
Source: Prepared by author using data provided by QUICK Corp.

By deducting capital inflow from the increase or decrease in net assets, it is possible to see how the latter are affected by operations[1]. These trends are displayed in Figure 1-1-5.

Looking at this together with Figures 1-1-3 and 1-1-4, basically there has been capital inflow when trusts were newly established, but little further inflow in line with the market alongside gradual outflow due to repurchases and redemptions. In the last two years, there have been some signs of rallying due to operations, but capital showed no indications of returning.

1 Fundamentally, by considering the decrease in net assets from dividends paid, it is possible to calculate flows purely due to operations (before dividend payments), but in this case that effect has been ignored.

Figure 1-1-5. Analysis of causes of net asset flows



*No data before March 2000

Source: Prepared by author using data provided by QUICK Corp.

Looking next at division by fund type and screening standard, Japanese equity funds increased from 31.7% to 42.3%, while international equity funds fell from 54.7% to 50.1%. Environmentally themed funds decreased from 77.4% to 71.5%, and CSR funds rose from 17.0% to 24.4%. More than 70% of capital remains focused on investment trusts with the environment as a screening standard, and environmentally themed international equity funds in particular represent about half of total capital.

(4) Conclusion

In the last two years, no new publicly offered SRI investment trusts have been established, and the number reaching maturity has increased. Capital is gradually flowing outward.

However, SRI awareness among individual investors is not decreasing. A survey by the Keizai Koho Center asked individual investors, "When investing in stocks, bonds, and investment trusts, do you consider the organization's CSR activities as well as its business performance and financial state?" A total of 73% of respondents said that they considered CSR activities when investing, with 15% saying that they were a major factor and 58% saying that they considered CSR activities to some extent[2]. Also, in the atmosphere of greater social solidarity since the Great East Japan Earthquake, there is the sense that individual investors are

Table 1-1-6. Publicly offered SRI investment trusts: Net assets by fund type (end of September 2013) (JPY million)

	Fund type								For reference
Screening standard	Japanese equity	Japanese bond	Japanese hybrid	International equity	International bond	International hybrid	Total	Ratio	(As of September 2011)
Environment	46,992	—	503	119,465	5,989	1,092	174,041	71.5%	77.4%
CSR	49,685	—	—	2,571	—	7,133	59,389	24.4%	17.0%
Employment	2,098	—	—	—	—	—	2,098	0.9%	0.6%
"Womenomics"	4,002	—	—	—	—	—	4,002	1.6%	1.9%
Health	251	—	—	—	—	—	251	0.1%	0.0%
Microfinance	—	—	—	—	—	3,759	3,759	1.5%	3.2%
Total	103,028	0	503	122,036	5,989	11,984	243,540	100.0%	100.0%
Ratio	42.3%	0.0%	0.2%	50.1%	2.5%	4.9%	100.0%		
For reference (as of September 2011)	31.7%	0.0%	0.3%	54.7%	6.2%	7.1%	100.0%		

Source: Prepared by author using JSIF material giving greater consideration to how their capital is used.

There is also a trend of individual investors choosing SRI financial products that match their values from a range of choices not limited only to investment trusts. These include impact investment bonds (discussed in the following section), crowdfunding, and micro investment (discussed in Chapter 5). It could be said that it has become difficult to talk about SRI by individual investors in Japan through a grasp of trends in publicly offered SRI investment trusts alone.

2 CSR Awareness Survey Report (2013) by the Keizai Koho Center: http://www.kkc.or.jp/data/

When referring to net assets in this section, apart from specified instances, non-SRI assets for SRI hybrid investment trusts (investment trusts that are not wholly based on SRI, such as those where the basis is 50% SRI and 50% non-SRI) are excluded. In addition, to make comparison possible, various numerical data has been retroactively recalculated, so please note that some figures do not correspond with those in the 2011 Review of Socially Responsible Investment in Japan.

Also, various data provided by QUICK Corp. contributed to the writing of this section.

2. Bonds

(1) Appearance of Impact Investment in Japan

Impact investment, whereby investors help society while receiving returns on their investment, is spreading as a new trend in Japan. Domestically, the most popular impact investment financial products are bonds based on social contribution themes.

Since March 2008, issuance and sales of bonds based on these themes has continued to progress, and as of September 30, 2013, the total amount of sales of these bonds had reached ¥790.0 billion, with the total amount of outstanding bonds being ¥498.3 billion (calculated based on exchange rate at time of issuance; totals have not been decreased to reflect sales of bonds before maturity). Compared with publicly offered SRI investment trusts, the growth of impact investment bonds has been startling. The balance of publicly offered SRI investment trusts exceeded ¥500.0 billion for the first time in December 2006, having taken 7 years and 4 months, but then fell back to ¥243.5 billion (as of September 30, 2013).

These bonds are characterized by the fact that they are issued and sold after a specific social contribution area, such as microfinance or ventures addressing global warming, is selected in which the funds will be used. The first bonds of this type available to individual investors in Japan were South African rand denominated Vaccine Bonds, issued by the International Finance Facility for Immunisation (IFFim), sales of which began in March 2008. Since then, sales of such bonds to individual investors have continued. Sales of the 57 different types of bonds sold up until September 2013 totaled approximately ¥790.0 billion. Looking at these bonds by social contribution areas, 29 bonds, sales of which amounted to ¥267.9 billion, were for ventures addressing climate change; 11 bonds, sales of which amounted to ¥182.6 billion, were Vaccine Bonds; 9 bonds, sales of which amounted to ¥155.7 billion, were for ventures addressing poverty (of which 5 were microfinance institutions(MFIs)); 3 bonds, sales of which amounted to ¥101.7 billion, were for ventures addressing water issues; 3 bonds, sales of which amounted to ¥47.6 billion, were for food and agriculture related ventures; and 2 bonds, sales of which amounted to ¥34.3 billion, were for education-related ventures.

Impact investment bonds issued and sold targeting institutional investors were previously limited to the 31st FILP Agency Board (JBIC Environmental Support Bond) launched in June 2008. However, starting in summer 2010, there was a rapid increase in issuance and sales of bonds for specified institutional investors including regional banks. A total of 20 different types of these bonds have been issued amounting to approximately ¥25.5 billion (Table 1-2-1).

(2) Types of Impact Investment Bonds

(a) Vaccine Bonds

Of the various impact investment bonds, the type that boasts the most transparent flow of capital is Vaccine Bonds. The IFFim, the issuer of these bonds, was established in 2006 to procure capital from capital markets to fund the activities of the GAVI Alliance, an organization that conducts vaccination programs in over 70 developing countries. The IFFim uses the funds procured through its Vaccine Bonds to accomplish this goal.

Its primary sources of funding are donations from developed countries, including the United Kingdom and France. Various governments have been making annual donations to the IFFim over a long period of time, but many children around the world need vaccines without delay. To eliminate this time gap, the IFFim started issuing these so-called Vaccine Bonds. By issuing bonds, it becomes possible to procure huge amounts of capital at one time. At maturity, the IFFim has to repay the principal to the investor, but donations from different countries bear legal restrictions and therefore can be paid back with an extremely high level of reliability. If new bonds are issued, it is also possible to use this capital to make repayments.

As a model case for financial functions in the development sector, Vaccine Bonds are drawing attention from various quarters. On the other hand, as debt repayments come from donations by different countries it is impossible to procure more than the agreed contribution. Therefore, Vaccine Bonds have their limitations.

With a financial base made up of donations bearing legal restrictions from national governments, and the World Bank providing financial management, the IFFim has obtained high sovereign ratings from the major rating companies. In Japan, it gained sovereignty in accordance with the Financial Instruments and

Table 1-2-1. Bonds issued for specified institutional investors

Issue date (payment date)	Issuer	Product	Currency	Term	Amount	Investor
8/19/2010	African Development Bank	Education Bond	USD	5 years	$12 mil.	An unlisted company
9/1/2010	World Bank	Green Bond	USD	5 year	$50 mil.	Iyo Bank
11/16/2010	World Bank	Green Bond	AUD	5 years	A$30 mil.	San-in Godo Bank
12/1/2010	World Bank	Green Bond	USD	5 years	$10 mil.	Iwate Bank
12/22/2010	World Bank	Green Bond	USD	5 years	$10 mil.	Kiyo Bank
1/19/2011	World Bank	Green Bond	USD	10 years	$5 mil.	Kagawa Bank
1/21/2011	World Bank	Green Bond	USD	5 years	$10 mil.	Fukui Bank
1/21/2011	World Bank	Green Bond	USD	5 years	$10 mil.	Daishi Bank
1/25/2011	World Bank	Green Bond	USD	5.25 years	$30 mil.	Aichi Bank
1/26/2011	Asian Development Bank	Water Bond	USD	5 years	$30 mil.	Nishi-Nippon City Bank
2/17/2011	World Bank	Green Bond	USD	5 years	$30 mil.	San-in Godo Bank
2/18/2011	World Bank	Green Bond	USD	5 years	$10 mil.	Hokuyo Bank
2/25/2011	World Bank	Green Bond	USD	5 years	$20 mil.	Nanto Bank
3/17/2011	World Bank	Green Bond	USD	5 years	$10 mil.	Oita Bank
4/15/2011	World Bank	Green Bond	USD	5 years	$10 mil.	Musashino Bank
6/14/2011	World Bank	Green Bond	USD	5 years	$10 mil.	Ogaki Kyoritsu Bank
6/29/2011	Asian Development Bank	Water Bond	USD	3 years	$10 mil.	Kagoshima Bank
10/6/2011	World Bank	Green Bond	AUD	10 years	A$10 mil.	Waseda University
2/7/2012	World Bank	Green Bond	USD	5 years	$10 mil.	Chiba Kogyo Bank
10/12/2012	World Bank	Green Bond	USD	5 years	$10 mil.	Chugoku Bank

Source: Daiwa Securities Co., Ltd.

Exchange Act in 2007.

(b) International Institution and Government Financial Institution Bonds

Most impact investment bonds can be classified under this category. These bonds are issued by international institutions and government financial institutions after a specified use of capital has been defined. Recently, private financial institutions, including Rabobank Nederland and Crédit Agricole CIB, have also started issuing these bonds. Based on the fund management method, bonds are generally classified into two types.

i. Ringfencing

By recording capital procured in a separate account from the general account, this method ensures the capital is used for strictly defined purposes. To meet the needs of ESG investors, it is managed separately from general working capital.

As need hardly be said, the advantage of ringfencing is that use of invested capital is transparent. It is clear that for investors who seek to invest in businesses that contribute to society, it is desirable for their invested funds to be kept separate from general working capital. However, it is also true that basically money is money, and it cannot be said to be effective for overall capital management if issuing bodies have to take the trouble to manage procured capital in different ways. As well as this, ringfencing makes it necessary for issuing bodies to have systems in place to handle operations that are different from ordinary procurement of capital.

The World Bank's Green Bonds are representative of the ringfencing model, under which there is intense demand for commitment from the issuing body. Green Bonds are held in high regard by regional banks and other domestic institutional investors, with a total of more than ¥20.0 billion have being invested in these bonds.

ii. Best Effort Management

Best effort management entails investment of procured capital in previously specified fields. These are made clear in sales pamphlets and other materials, but are not legally enforced, and there are no separate accounts. As there is no need for new operations to manage capital, bonds can easily be issued. Another advantage is that with no separation into different accounts, capital can be managed more effectively. Investment in infrastructure development operations, including global warming countermeasures and management of water resources, is not something that can necessarily be done immediately after capital is procured. Investors' opinions vary as to whether capital should be appropriated to other organizations or projects, where it can be used more efficiently, during the search for a suitable place to invest.

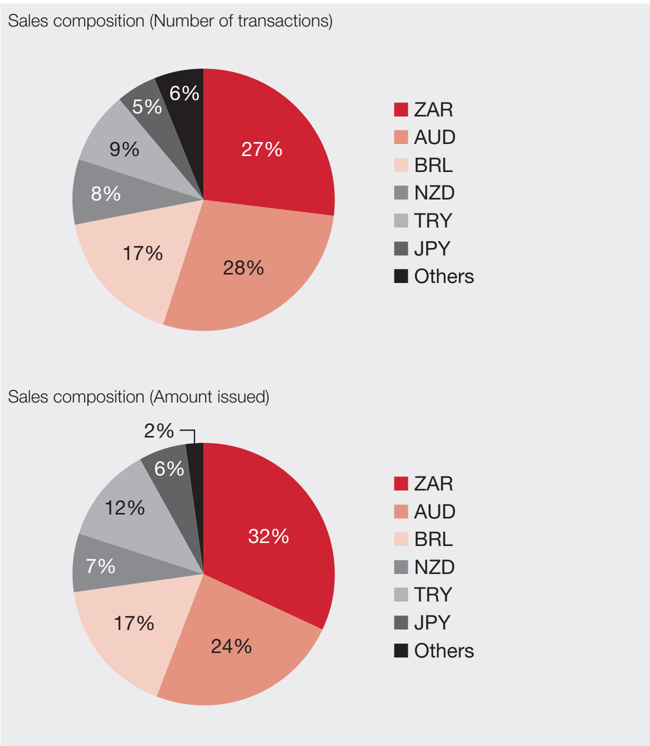
The Microfinance Bonds that began being sold in November 2009 by the International Finance Corporation (IFC) were the first best effort management bonds available in Japan. Since then, many bonds of this type have been established. As they emphasize how capital will be used when they are sold, a major concern for investors is how strictly that capital is actually managed. A fundamental issue with these bonds is that it is not necessarily clear whether investors' funds are genuinely being used to contribute to society. There is a need to pay attention to the different ways issuing bodies and securities companies dealing in these bonds handle them.

(3) Reasons Behind Popularity and Expansion of Impact Investment Bonds

One factor that is considered to contribute to the popularity and expansion of impact investment bonds in Japan is their responsiveness to the rising demand for high-interest currencies among individual investors. Looking at the bonds sold to individual investors based on the currency in which they were denominated (Figure 1-2-2), the top five most popular currency denominations were the South African rand, the Australian dollar, the Brazilian real, the New Zealand dollar, and the Turkish lira. Bonds denominated in these five currencies accounted for 90% of all bonds sold on a volume basis and 92% on a monetary value basis. This demonstrates that, as interest rates in Japan remain at an all-time low level, individual investors are increasingly shifting their assets into currencies that offer higher levels of interest income.

The simplicity of these bonds has made them a viable means of investment for a wide range of investors, further contributing to their popularity. No matter how much a financial product may try to advertise its social benefits, it is unlikely to be adopted by the masses if it is complicated and high risk. Moreover, impact investment bonds tend to be bullet bonds with fixed rates, a type of bond that individual investors have become accustomed to, and feature relatively low exposure to default risks, making them easy to invest in. It could be said that these impact investment bonds have created a new form of social value by leveraging the trust inherent in bonds in foreign currencies while focusing the usage of capital on specific social issues.

Figure 1-2-2. Impact investment bonds by currency denomination



Source: Daiwa Securities Co., Ltd.

Improved ease of investment is another factor behind the popularity of impact investment bonds. Some bonds of this nature can be bought at an affordable price of around ¥100,000 through the Internet. Also, information regarding the issuers of these bonds is being made more readily available through means such as holding IR seminars and preparing explanatory material designed to be easily understood. These factors have made such bonds more accessible to people with little or no investment experience, thus helping drive the spread of these bonds.

It cannot be denied that the rising awareness of social issues among individual investors in Japan has been a strong contributing factor to the popularity of impact investment bonds. In other words, the recent financial crises have inspired investors to reconsider their stances at the most fundamental level, leading to increased consideration for where their money is going. There is a growing call for investment around the world to target the resolution of social issues, and this wave of sentiment has also spread to Japan. The combination of increased concern about social issues and more than ¥1,500 trillion in personal financial assets in Japan, of which around ¥860 trillion is in cash and deposits, makes social contribution through investment an appropriate model.

There is also a great incentive for providers of impact investment bonds. This is that they have a great opportunity to communicate to a wide range of investors, who previously showed almost no interest in their business, about what that business is. At the same time as being capital procurement, it is also an IR activity. Japan's bond market for individual investors was an important source of capital for overseas bond issuers, but the drop in global interest rates led to intense competition with other financial products. The successful entry of Vaccine Bonds and Microfinance Bonds into this environment drew a high level of interest from other issuing bodies. The variety of issuers increased more and more with a resulting broadly expanded choice for investors of where to invest.

The importance of these bonds is also increasing for the securities companies that deal in them as a product that meets the needs of both the issuing bodies that borrow capital and the investors who lend it, and as a product that attracts new kinds of investors. Examples of small-scale social impact investment, mainly by young people who are greatly concerned by social issues, can sometimes be observed now and expectations are rising that impact investment bonds may be a new way to encourage the shift from saving to investment.

(4) Projected Future Developments

Over the past five years, the market for impact investment bonds in Japan has shown stunning growth. However, there are still a number of issues with these bonds.

One of these issues is the over-emphasis on high-interest currencies. The fact that over 50% of bonds issued on a monetary value basis are denominated in South African rands or other currencies from emerging economies signifies a lack of balance between currencies when the market is viewed as a single portfolio. While this makes such bonds a good choice for meeting the needs of investors seeking high interest rates from overseas currencies, the volatility and liquidity of the currencies of these emerging economies must be carefully considered. Accordingly, it is important for securities companies dealing in these bonds to provide investors with clear explanations of these risks. By contrast, an impact investment bond denominated in Japanese yen that gained considerable attention was the first JICA Bond targeting individual investors in December 2011, issued by the Japan International Cooperation Agency (JICA). Capital procured was allocated as loan assistance, gaining backing as a means of supporting development in developing countries. These bonds have been issued every December since, and the fact they do not carry any exchange risk is attracting new kinds of investors.

An issue experienced by this bond was the overconcentration of investors from the retail sector. In addition to individual investors, a number of public-interest organizations, including educational and religious institutions as well as foundations and associations, took advantage of these bonds, while very few institutional investors purchased them. Institutional investors have a responsibility to maximize investment performance as much as possible, and it is not easy to invest based on factors that are as difficult to quantify as social impact. Nonetheless, it is certainly true that many investors are interested in impact investment, particularly bonds. Looking ahead, in order for the impact investment bond market to become more fleshed out, it is necessary that new products be developed to encourage participation among institutional investors and new guidelines be established.

Lastly, the fact that impact investment bonds all result in capital flowing outside of Japan is a major impediment to the expansion of the market for these bonds. Japan is currently facing a number of social issues at home and there is strong demand for the development of a framework to address these issues. The February 2011 establishment of the first publicly offered investment fund in Japan to primarily focus investments on MFIs, mentioned in the first section of this chapter, represents one approach toward developing such systems. The appearance of funds and schemes for investing capital in social ventures on a commercial scale has significant meaning. If this framework is properly utilized, the establishment of publicly offered investment trusts that invest in domestic NPOs and other related organizations may be possible. Also, Social Impact Bonds, which come originally from the United Kingdom and for which $100 million has been reported in the Barack Obama government's budget in the United States, may become a future road map. It is not something that has been greatly discussed in Japan to date, but this social investment scheme, based on partnership between government and the private sector, could play a big role in contributing to tackling social issues domestically.

While Japan has been lagging behind Europe and the United States when it comes to impact investment bonds, we have finally begun to see a definite trend develop. In order to ensure this trend persists, it is absolutely essential for a more comprehensive framework, including that pertaining to investment tax systems, to be established through government–industry coordination.

Note: Impact Investment

Impact investment is a form of investment that aims to rapidly and directly tackle social issues, such as poverty and environmental problems, at the same time as pursuing economic profit.

Impact investment can be classified as a form of socially responsible investment (SRI), but it aims to achieve a more proactive, positive impact compared with older forms of SRI. If SRI can be seen as minimizing the negative effects (for example, through negative screening that eliminates brands with poor CSR from the scope of investment), impact investment places its focus on rapid and direct investment that maximizes positive effects. Recognition of the concept spread after the official establishment of the Global Impact Investing Network (GIIN) at the fifth annual meeting of the Clinton Global Initiative in September 2009.

Specific examples of impact investment include microfinance and community development financial institutions (CDFIs), but these are not new initiatives in themselves. Impact investment takes these individual activities in various fields and brings them into one sector so that investors can be more comprehensively informed.

Although tackling problems related to poverty and the environment requires huge amounts of money, there is a limit to what can be achieved through reliance on national governments and official development assistance (ODA) alone. It is estimated that there is more than $200 trillion of financial capital in the world, and impact investment can activate a large amount of private investment capital that this sum includes. As a way of tackling the social problems the world faces via economic markets, the future development of impact investment holds considerable promise.

2 Institutional Investors and SRI

1. Owners of Workers’ Capital and Responsible Investment

(1) Introduction

In December 2010, the Japanese Trade Union Confederation (RENGO) drew up its Guidelines on Responsible Investment of Workers’ Capital, reaffirming the rights and responsibilities of workers (labor unions, including affiliates and individual unions) as owners of workers’ capital and setting forth a road map for responsible investment. Following this, RENGO established the Workers’ Capital Responsible Investment Committee, which provided support to labor unions for two years through such activities as providing information. However, it cannot be said that responsible investment initiatives have particularly spread to date.

(2) Implementation Guide Based on the Guidelines on Responsible Investment of Workers’ Capital

Against this background, in April 2013, RENGO drew up the Implementation Guide Based on the Guidelines on Responsible Investment of Workers’ Capital, including basic policies regarding responsible investment. This is intended as a guide for RENGO affiliates and individual unions to put responsible investment into practice. A summary of this guide follows.

(a) Key Points of the Implementation Guide

Workers’ capital is used for a wide variety of purposes, including corporate pensions, strike funds for labor unions, mutual aid funds, and reserve funds as well as the funds of Labour Banks and the National Federation of Workers and Consumers Insurance Cooperatives. However, the important common factor is that workers take responsibility for how the capital they have contributed is used, participating in and monitoring this process. The Implementation Guide examines corporate pensions, as the most representative of the above uses, and gives concrete steps for affiliates and individual unions to work with funds and business owners to decide on ways of investing responsibly.

Table 2-1-1 below gives a simple outline of different corporate pensions and approaches. Even with agreement-type defined benefit pension plans and corporate-type defined contribution pension plans, agreements are based on consensus between labor and management. Accordingly, even in these cases it is important as a labor union to strengthen the monitoring of systems operation and asset management and to establish a committee made up of both labor and management to discuss important matters.

(b) Aims of the Implementation Guide

The Implementation Guide aims to incorporate thinking on responsible investment into basic policies for pension asset management in corporate pension plans. The operational target for these basic policies related to the corporate pension fund at one corporate group states “when managing this fund’s pension assets—to ensure the future payment of pension benefits in line with agreed figures, by paying attention to fund maturity, the state of the provider, and medium-term downward swing risks and considering long-term management with regard to allowable risk, while keeping a sufficient focus on risk management—we aim to safeguard necessary comprehensive earnings over the long term.” Responsible investment thinking could be incorporated by adding a sentence along the lines of “At that time non-financial factors will be considered alongside financial factors.” By doing so, responsible investment would be positioned at the highest levels of operations, meaning all assets in that corporate pension fund could be invested responsibly.

Table 2-1-1. Types of corporate pension and approaches

Does your company have a corporate pension?	YES	What kind of corporate pension?	Employee pension fund (independent employer)	→	Approach fund (secretariat, executive board or representative assembly, asset management committee) through mutually agreed representative	&	Approach business owner as labor union
			Employee pension fund (affiliated employer)				
			Employee pension fund (multi-employer)				
			Defined benefit pension plan (fund type)				
			Defined benefit pension plan (agreement type)	→	Approach business owner as labor union		
			Defined contribution pension plan (corporate type)				
	NO			→	Increase awareness of RENGO activities		

(c) Procedures for Responsible Investment
As the assets (products) investment managers can handle are limited, it becomes necessary to gradually expand from what is initially possible. The most important thing is to first put together and agree on a philosophy or basic policy regarding responsible investment as a labor union. A possible path to the realization of responsible investment is given below (Figure 2-1-2).

Figure 2-1-2. Path to the realization of responsible investment at RENGO affiliates and individual unions

Internal discussion at labor union and agreement on basic policy regarding responsible investment	· Gather information regarding responsible investment through participation in external workshops and other methods · Provide information to union members and form consensus regarding how to implement responsible investment · Agree on basic policy regarding responsible investment (vote at central committee and other meetings)
↓	
Consultation with corporate pension fund and business owner	· Exert influence on pension manager and business owner based on basic policy regarding responsible investment · Request pension manager to enter discussions with pension management consulting companies · Propose incorporation of responsible investment into the fund's basic policy on asset management at board meetings and meetings of representatives and hold consultations
↓	
Consultation with asset management company	· Hold consultations with asset management company at fund asset management committees and other meetings regarding concrete procedures for realizing responsible investment; this would include basic details of non-financial factors to be incorporated into investment decisions and methods and proportions of responsible investment
↓	
Implementation and monitoring of responsible investment	· Implement responsible investment through asset management company · Request report on management performance and responsible investment methods and results from fund and business owner; ensure that responsible investment is taking place appropriately · Inform union members of results and assessment through official journal or other methods

Source: created by author

(d) Examples of Basic Policy Regarding Responsible Investment
Examples of a basic policy regarding responsible investment as described in the Implementation Guide are generally made up of a foreword and basic thinking regarding responsible investment. The latter requires information on definition of terms, responsible investment methods and goals, assets to be invested responsibly, standards for non-financial factors, selection principles for investment managers, and investment monitoring.

Investment monitoring is particularly important, and it is essential to give details on how union members and others concerned will be informed of the methods used and results achieved by investment managers in implementing responsible investment. Specifically, quarterly reports on management performance and investment methods and results are needed from funds and business owners with assessment based on these results. However, it is important that this assessment takes a medium-to-long-term perspective rather than only considering the short term. As well as informing union members of results and assessment through the official journal, it is also effective to require information from the fund, such as in a fund newsletter.

(3) Establishment and Activities of the Workers' Capital Responsible Investment Council

In March 2013, RENGO dissolved the Responsible Investment Committee at the end of its two years of activity, replacing it with the Workers' Capital Responsible Investment Council, launched in June of the same year. The Responsible Investment Council targets specific adoption of responsible investment at many funds, and as of November 30, 2013, 14 affiliate members had joined.
(a) Goals of the Responsible Investment Council
Attainment targets for the current year as decided at the first council meeting held on June 26, 2013, are as follows.
Attainment targets for RENGO:
Adoption of responsible investment concept at public pension funds
Attainment targets for participating affiliate members:
Provision of results regarding the state of responsible investment in the management of pension and other funds
(b) Activities by Affiliate Members
i. JICHIRO and JTU Activities
In February 2010, the Pension Fund Association for Local Government Officials began ESG-focused socially responsible investment in Japanese equity. In March 2011, it revised its Corporate Governance Principles and Shareholder Voting Rights Guidelines, adding sections on corporate social responsibility. Further, the National Federation of Mutual Aid Associations for Municipal Personnel, also a member of RENGO, has adopted the MSCI Japan ESG Index as a benchmark for Japanese equity ESG investment. At the same time, it has announced that its asset management company is a signatory to the UN Principles for Responsible Investment (UNPRI), a requirement for the ESG-passive management related to the benchmark. It has revised its Shareholder Voting Rights Guidelines, clarifying in it the general rules that the company is expected to work toward to tackle global environmental issues and fulfil its role as a member of society.

Participation of employee representatives in bodies making important decisions is guaranteed at both the Pension Fund Association for Local Government Officials, in its governing council, and the National Federation of Mutual Aid Associations for Municipal Personnel, in its general assembly. The influence of the All-Japan Prefectural and Municipal Workers Union (JICHIRO) and the Japan Teachers' Union (JTU) is a major factor in this kind of unusual governance system.

ii. ZEN ROKIN Activities

In April 2010, the Rokinren Bank implemented its Rokinren Socially Responsible Investment Principles. It invests in financial products chosen through positive screening that take into account not only financial indexes and other economic aspects but also environmental initiatives, compliance, consideration for employees, and contributions to local communities. In fiscal 2012, around ¥10 billion was invested. The Rokinren Bank is also practicing responsible investment in the corporate pension fund it operates for employees. In June 2011, it decided its current policy for specifically selecting management companies and products in terms of responsible investment, based on conditions including a 1% upper limit on assets under management.

The Rokinren Bank's operations and business demonstrate social responsibility being put into practice, but this has resulted from strong awareness among and pressure from its employees who are members of the Federation of Labour Bank Workers Unions of Japan (ZEN ROKIN).

iii. FNIU Activities

Since 2012, the Federation of Non-Life Insurance Workers' Unions of Japan (FNIU) has been enthusiastically holding responsible investment seminars, and in April 2013, it became a member of JSIF and a supporting member of the Corporate Pension Network. As debate over employee pension refund reform continues, in June 2013, the FNIU's Economic and Social Policy Bureau stressed the importance of responsible investment in its Labour Union Corporate Pension Implementation Guide.

In the FNIU's case, numerous companies and affiliated asset managers are PRI signatories. The fact that labor and management are working together in the same direction at FNIU could prove to be an excellent guide for labor and management at other companies in the financial and other industries.

(c) RENGO Activities

i. Participation in the CWC 2013 Conference, its 16th Annual Meeting

On November 16–17, 2013, RENGO took part in the Committee on Workers' Capital (CWC) Conference, the 16th annual meeting of CWC, held in Washington D.C. in the United States. The CWC was established in 1999, centered on what was then the International Confederation of Free Trade Unions (ICFTU), to exert an influence on corporate activities through management of pension reserves.

The 2013 conference consisted of eight sessions, including "Long-term investment and financial market reform" and "Addressing human rights and labor rights in investment decisions," under the main theme of "Shifting to the Long Term." In summary, the fact that labor unions in different countries are aware of themselves as possessing workers' capital, left a strong impression. Examples of this can be seen in the active investment in infrastructure by labor unions to create good employment, and the drafting of detailed investment guidelines related to exercising voting rights, such as that raising officer compensation without raising employee salaries is contrary to company submitted proposals, by the British trade union center, the Trades Union Congress (TUC). At the same time, the conference provided a reminder of the potential for workers' capital to positively affect global problems that are becoming more serious, including poverty, deteriorating employment and labor conditions, environmental destruction, and economies that are out of control. By changing the flow of money, it is possible to change society.

The Fiscal 2014 Action Plan was also confirmed at the 16th annual meeting. This plan consists of four main focus areas, including strategic leveraging of workers' capital to protect workers' rights and support for pension plan trustees to bring about successful responsible investment. Regarding maintenance of labor union networks for tackling responsible investment issues, RENGO made the following statement: "The idea of making strategic approaches to labor unions and contract organizations in China and other Asian countries has been raised. This is extremely important and we hope approaches will be successful. The reason is that in Asian countries, including Japan, responsible investment has not spread sufficiently. We would like to form partnerships if they would be useful."

ii. Reflection of Opinions in Various Committees

RENGO special committee members have taken part in many discussion groups and committees relating to pensions, including the Social Security Council Pension Sectional Meeting, repeatedly stressing the importance of responsible investment this year to the national government and others.

As a result, the Cabinet Office emphasized in the Guidelines on Responsible Investment of Workers' Capital that "human resources development and training in the workplace (promotion of female managers)" as one of the criteria in the report on a conference regarding understanding the extent of female management activity in capital markets.

Also the Cabinet Secretariat's panel for increasing the sophistication of management of public and quasi-public funds included the following statement in its interim summary of issues, published on September 26, 2013: "Some people expressed the opinion that non-financial ESG factors should be considered as well as financial factors."

(4) Recent Debate Regarding Pensions

(a) Employee Pension Fund Reform

On June 19, 2013, a law was passed that reformed part of the Employees' Pension Insurance Act to ensure a sound and reliable public pension system. This effectively abolished the fund system. The same law includes measures to support transfers to other systems to protect pension rights related to add-on funds. There is a need to protect these rights as corporate pensions form a part of retirement benefits and represent deferred payment of salary, providing security in old age. Even having abolished the proxy system, and provided retirement benefit rules do not change through labor–management negotiations, as parent companies are still required to pay retirement benefits it is necessary to supply protection, including through transfer to other corporate pensions, such as to defined benefit pension plans. Also, following the abolition of tax-qualified pension plans, smaller companies in particular are not being accepted by financial institutions, discovering that they are unable to transfer to other corporate pensions, as a consequence there is a need to find places where they can be accepted.

RENGO worked to get its opinions reflected at the Social Security Council Pension Sectional Meeting, so as to implement the following supplementary resolution to the above law at the House of Councilors Committee on Health, Welfare and Labour on June 18, 2013: "With the dissolution of multi-employer employee pension funds, necessary information, including regarding selection of places to transfer to, will be supplied to members and recipients. Support to funds and parent companies will also be provided to allow optimum decision making. Further, as many parent companies funds are small or medium-sized, support will be expanded for transfer from funds to other corporate pension plans. This will include improvement of procedures for existing corporate pension systems."

(b) The Cabinet Secretariat's Panel for Increasing the Sophistication of Management of Public and Quasi-public Funds

The Cabinet Secretariat's panel, mentioned previously, was established on July 1, 2013, by the Minister for Economic Revitalization. In the Japan Revitalization Strategy agreed on by the Cabinet on June 14, 2013, it was decided that a panel be established to discuss cross-divisional issues related to management of public and quasi-public funds, including promotion of diversified investment, taking into account the scale and nature of these funds, as well as other topics, including risk management systems and other governance issues and policies for increasing return in long-term equity investment, with recommendations to be provided by fall of the same year. The interim summary of issues, published on September 26, 2013, proposed an overhaul of portfolios centered on Japanese bonds, diversification of assets to be managed, and construction of portfolios based on forward-thinking risk analysis. In the management targets, the opinion was given that as discussion was proceeding as part of the Japan Revitalization Strategy, it would be best to consider how to contribute to the Japanese economy.

To avoid influencing stock markets, the minutes of the panel discussions have not been made public, and with the report to be finalized later in fall 2013, I will not comment here in detail. However, in cases where pension contributions are lost, it is not actually clear who takes responsibility, and as the macroeconomic slide adjustment period gets longer, ultimately those people who are insured or recipients take the risk and suffer losses. This was made clear in the dialogue at the 16th Pension Sectional Meeting, held on October 24, 2013. In the management targets of the Employees' Pension Insurance Act, it is stated that "management of contributions [...] is solely for the benefit of contributors to employee pension funds and should be carried out in a safe and effective manner from a long-term perspective," while a similar rule can be found in the National Pension Act. Whatever the final panel report says, management that is consistent with the above points will continue to be necessary.

(5) Conclusion: Who Owns Pension Contributions?

As can be seen from the above, there is active debate surrounding pensions, whether public or private. At the previously mentioned 16th Pension Sectional Meeting, it was stated that contributions to employee pension funds or the national pension fund are a part of insurance premiums collected from those insured. In other words, it was clarified that contributions are capital belonging to those who pay insurance premiums, i.e. people who are insured, recipients, and labor and management.

Who owns pension contributions? RENGO has strongly reaffirmed that pension funds are workers' capital, either contributed by workers or for the benefit of workers, and will continue its activities accordingly.

2. Examples of Responsible Investment by Owners of Workers' Capital

(1) Introduction

In 1967, the FNIU was formed as an industry-specific alliance of labor unions for workers in the general insurance industry. Now it consists of around 87,000 members from 20 labor unions in the industry, including companies specializing in general insurance, related claims investigation, information systems, and life insurance. It is involved in a range of activities for maintaining and improving the quality of working conditions and promoting the healthy development of the industry.

(2) An Opportunity to Begin Responsible Investment

In December 2010, RENGO drew up its Guidelines on Responsible Investment of Workers' Capital. With the opportunities arising from the establishment of RENGO's Workers' Capital Responsible Investment Committee in April 2011, FNIU was able to gather information through participation in workshops held by external organizations and begin internal debate about responsible investment.

(3) Spread of Responsible Investment Awareness

The FNIU believed that to promote responsible investment it was first essential to spread knowledge of responsible investment within its own organization and to foster understanding of why this kind of investment is necessary at individual unions. Accordingly it held seminars and workshops for union leaders, inviting speakers from external organizations, such as Eiichiro Adachi of the Japan Research Institute.

While deepening knowledge and understanding of responsible investment through these seminars and workshops, the FNIU held discussions at its central executive committee as to where responsible investment would be applied, agreeing that it would be applied to corporate pensions.

Corporate pensions are the most representative form of workers' capital funds. Because they can perform governance functions for labor unions, and many companies and affiliated asset management companies in the general insurance industry are UNPRI* signatories, it is possible for labor and management to work together in the same direction.

At the same time, with society having been rocked by impairment of pension assets by investment management companies responsible for the management of corporate pensions, union members' interest in this subject has increased. There is also greater demand for a governance role at labor unions.

* Asset owner signatories: Sompo Japan Insurance Inc., Tokio Marine & Nichido Fire Insurance Co., Ltd.; Asset manager signatories: Sompo Japan Nipponkoa Asset Management Co., Ltd., Tokio Marine Asset Management Co., Ltd., Tokio Marine Capital Co., Ltd.

(4) Setting Targets and Building a Road Map for Responsible Investment

Initially, the FNIU agreed to apply responsible investment principles to corporate pensions, setting its organizational targets as incorporating these principles into its basic policy on asset management for corporate pensions and achieving responsible investment.

It then built a specific road map for meeting these targets at its central executive committee, unifying its thinking with that of individual unions.

(5) Implementation of Initiatives in Line With the Road Map

Many corporate pensions in the general insurance industry follow defined benefit pension plans or defined contribution pension plans and in most cases labour unions participate by sending representatives.

However, individual unions cannot presently be said to involve themselves sufficiently with corporate pensions. As there is a need for greater participation by unions to promote responsible investment, having confirmed policy orientation at the central executive committee, workshops were held for those responsible for investment at individual unions.

The aim of the workshops was to deepen knowledge and understanding of corporate pensions, and speakers were invited from the Financial & Pension Issues Education Network, RENGO, and other external organizations. Topics included the significance of involvement in corporate pensions (Road map to responsible investment, Figure 2-2-1: (1)), understanding of currently adopted corporate pension systems (2), and ways of involving labor unions in governance systems (3).

The Corporate Pension Activity Guide for Labour Unions booklet was also prepared with information on these topics, supporting greater knowledge among executives at individual unions and discussions on future policy.

(6) Future Responsible Investment Initiatives

The FNIU is promoting involvement with corporate pensions at individual unions in line with its Corporate Pension Activity Guide for Labour Unions.

It is also building partnerships with external bodies, such as the Financial & Pension Issues Education Network to tackle issues arising in the involvement process.

Additionally, it is discussing support for the drawing up of basic policies on responsible investment at individual unions (5) when they have become sufficiently involved with corporate pensions and increased their governance functions to an appropriate level.

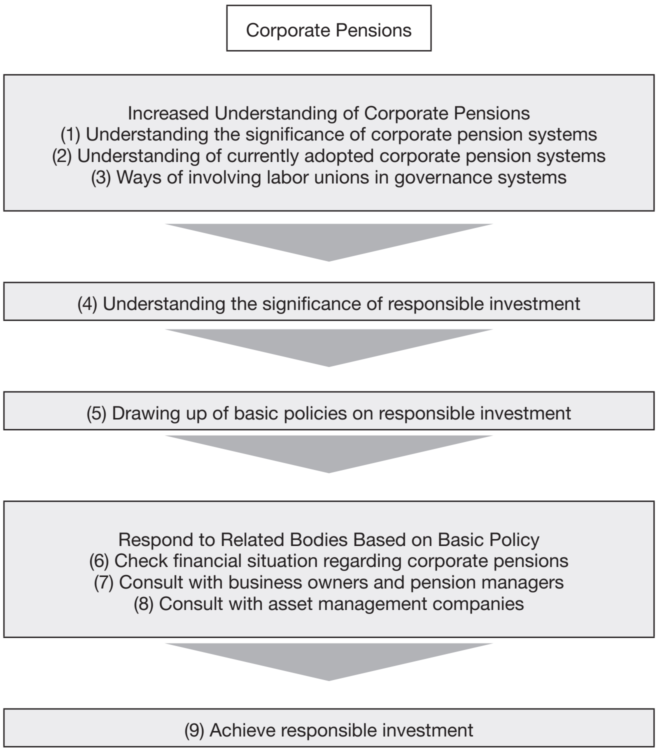
Finally, it intends that unions will use their policies to check the financial situation regarding corporate pensions (6), consult with business owners and pension managers (7), consult with asset management companies (8), and incorporate responsible investment thinking into their basic policies on asset management to achieve responsible investment (9).

(7) Conclusion

From this, it can be seen that responsible investment initiatives at the FNIU have only just begun, but while numerous issues remain, such as the drawing up of investment policies, there is a will to proceed steadily along this path.

At the same time, the workers' capital that labor unions can use for responsible investment comes in diverse forms, including strike funds and reserve funds as well as corporate pensions. While touching on such questions as the social mission of labor unions, these other forms of capital remain as issues for future discussion.

Figure 2-2-1. Road map to responsible investment



Source: created by author

(Column)

Using Information Providers to Implement Responsible Investment

1. ESG Information Providers

In recent years, environmental, social, and governance (ESG) information providers are increasingly providing ESG ratings and data as well as investment management tools to bring about responsible investment. As institutional investors use these external resources to a greater or lesser extent, they can gain support for achieving their responsible investment goals. Given that a number of service providers are now offering different types of ESG products and services, the level of utilization and integration of those services into investment processes differs based on investors' ESG policies and goals as well as internal resources.

ESG information providers now supply various kinds of ESG research to investors.

This comes mainly in such forms as ESG data, ratings, analysis reports, and indexes, with the range of information provided growing as responsible investment fields expand to include Japanese stocks, overseas stocks, government and corporate bonds, real estate, and private equity. In addition to utilizing externally provided research, some Japanese investment managers recently increased their use of in-house research teams to conduct ESG research. Conducting in-house ESG research at the same time as using externally provided ESG research is also an effective method to implement responsible investment policies. Furthermore, in-house ESG research can enhance the research supplied by ESG service providers. In any case, when using research provided by information providers, investors should first establish their own responsible investment policies, combine external research with in-house resources, and thoroughly discuss how to use the research, including ESG data, ratings, analysis reports, and indexes.

2. ESG Approaches to Investment Activities

For a wide range of investors who use ESG information in their investment activities, it is important to provide access to ESG information through mainstream investment support systems. This can allow investors to analyze the level of contribution of ESG factors on investment performance and to manage ESG as a portfolio risk factor through a familiar interface. Also, including ESG in investment support services, may ease reporting and communication regarding responsible investment operations and management of ESG factors between asset owners and investment managers.

3. MSCI ESG Research

As of March 2013, MSCI ESG Research provides research to more than 60 asset owners with combined assets of US$2.3 trillion and more than 600 clients, with combined assets of US$150 trillion. MSCI ESG Research covers over 5,300 publicly traded companies and 270,000 fixed-income issuers with investors choosing the most appropriate research to use based on their ESG investment policies.

(1) Best-in-Class ESG Ratings

MSCI ESG Research's Intangible Value Assessment (IVA) provides research, ratings, and analysis of corporate management of environmental and social risk factors. Through an in-depth comparison against sector peers, IVA can reveal ESG-driven investment risks or opportunities that may not be captured by conventional analyses. IVA identifies specific key ESG issues by sector; these are issues where some companies in those sectors may be forced to internalize unanticipated costs associated with those externalities in the medium- to long-term.

Using a sector-specific key issue weighting model, companies are rated and ranked in comparison to their sector peers. The companies in each sector undergo an annual review and are updated on a rolling basis as well as in response to major events.

As of the end of 2013, approximately 5,300 global publicly traded companies, of which approximately 300 are Japanese corporations, were rated in the MSCI ACWI Index and the MSCI ACWI Investable Market Index (IMI) for large, mid, and small sectors of the market.

(2) MSCI ESG Research Impact Monitor

Many investors are sensitive to companies' controversies. In recent years, scandals such as accidents and legal violations may have led to reactions on the markets. Investors who are concerned about controversies might choose to immediately remove involved stocks from their portfolios or set a policy of managing them on a watch list. MSCI ESG Research Impact Monitor allows institutional investors to identify company involvement in ESG controversies, how well companies adhere to international norms and principles, and to assess company strategies, disclosure, and performance with respect to these norms and principles. MSCI ESG Research's Impact Monitor product quantitatively assesses the impact of companies' controversies and whether there are structural issues, assigning red, yellow, green flag to describe the controversy breach type and pattern. With Impact Monitor, investors are able to identify companies with the worst controversies in a sector or with the potential for causing negative impacts on society or the environment.

(3) MSCI ESG Research Business Involvement Screening Research

MSCI ESG Research Business Involvement Screening Research (BISR) allows investors to identify all global publicly traded companies involved in activities such as the production of controversial weapons, tobacco products, or those that violate religious screening mandates such as Catholic or Islamic Values.

While the manufacture and sale of alcohol and cigarettes is not considered unethical within Japan, when entrusted with capital from religious sources it is necessary for investment managers to have in place ways of managing portfolios according to the divestment policies of the owners. MSCI ESG Research BISR provides business screening across 18 different issue areas, as well as screening on companies with operations in countries with US federal or state sanctions.

(4) MSCI ESG Research Fixed Income Ratings

Responsible investment practices and the integration of ESG across asset classes, specifically fixed income, has grown in popularity in recent years. Unlike equities, bonds may come from unlisted corporations, subsidiaries of listed corporations, government-affiliated agencies, and also include sovereign bonds.

MSCI ESG Research's Government Ratings provide ESG ratings for countries. As of October 2013, MSCI ESG Government Ratings provided an overall sustainability assessment of 90 countries covering Developed, Emerging and Frontier Markets, containing historical time series results of over five years. These ratings assess long-term ESG risks for countries in 13 areas including nature and resources, population, educational level, economic climate, and the legal system. Our Fixed Income ESG Ratings, which combine sovereign and corporate ratings, are provided for Barclays Global Aggregate Index stocks and encompassed in the MSCI ESG Fixed Income Index.

In Japan, where awareness of responsible investment is gradually spreading among investors, there is a need for practical initiatives for incorporating ESG into traditional investment. An effective method is establishing in-house investment policies at the same time as using a range of ESG information and tools supplied by ESG information providers. Also, through in-house discussion and compared usage of externally supplied ESG information and analysis tools, it is possible to refine research supplied by ESG information providers.

1. "Abenomics" and Corporate Governance

(1) Japan Revitalization Strategy

The Shinzo Abe Administration, which came to power in December 2012, established the Headquarters for Japan's Economic Revitalization and the Industrial Competitiveness Council as well as their respective subcommittees to implement his policy called "Abenomics" aiming to correct a strong yen, to ease deflation, and to rebuild a strong economy. After some deliberation, in June 2013 the Cabinet approved the Japan Revitalization Strategy[1] as a growth strategy that represents the third of the "three arrows" of "Abenomics." The measures in this growth strategy are wide-ranging, including those related to the ESG issues of corporate governance reform and female employment.

Key performance indicators (KPIs) and target dates were set for each measure and published as the Japan Revitalization Strategy Short- to Mid-Term Progress Schedule.

(2) Corporate Governance Measures

Policy measures to strengthen corporate governance was included as part of "promoting business restructuring and reorganization" within the accelerating structural reform program. By the end of 2013, the following measures were scheduled to be completed: 1. Design a bill to amend the Companies Act regarding the introduction of outside directors, 2. Discuss and establish the principles for institutional investors to appropriately discharge their stewardship responsibilities, and 3. Disclose a summary for a stock index and develop it.

As of November 2013, the first and third measures were being finalized, while the second was being discussed with a view to completion before the end of the year. The long-debated proposal to make outside directors compulsory was not enacted in the planned outline for amendment of the Companies Act, but "audit and supervisory committees (where more than half of members are external directors)" were newly introduced. Regarding the second measure, standards known as the Japan's Stewardship Code[2] are under discussion. On November 6, 2013, a summary was announced for a new stock index, the JPX-Nikkei Index 400, which is based on both business performance and corporate governance factors, to begin operation from January 2014.

1 The English translation is available at the Headquarters for Japan's Economic Revitalization website within the website of the Prime Minister of Japan and His Cabinet
http://www.kantei.go.jp/jp/singi/keizaisaisei/pdf/en_saikou_jpn_hon.pdf
http://www.kantei.go.jp/jp/singi/keizaisaisei/pdf/koutei_en.pdf

2 Japan's Stewardship Code was established in February 2014. For further details, please check the website: http://www.fsa.go.jp/en/refer/councils/stewardship/index.html

2. ESG Shareholder Proposals in Japan

Alongside the widespread adoption of the UN Principles for Responsible Investment (UNPRI), collective engagement has proliferated in the United Kingdom, Europe, and the United States, with engagement gradually becoming an important means of implementing responsible investment. Interest is growing in engagement in Japan too, as can be seen in the development of the above-mentioned Japan's Stewardship Code, and there has also been increased dialogue in exercising proxy voting. However, there has been little public reporting of this kind of engagement trend, with only the visible engagement represented by shareholder proposals coming to general notice.

As described in previous editions of this review, for many years in Japan, groups opposing nuclear power have submitted antinuclear shareholder proposals to electric power companies. These kinds of shareholder proposals are generally submitted by groups of individual shareholders who have collected enough voting right units to submit proposals under the Companies Act. However, in recent years proposals by individual investors acting alone, institutional funds, and municipal bodies that are major shareholders of companies are becoming increasingly common. They are targeting increased involvement in company management through proposals to elect outside directors / outside corporate auditors and demands to increase the transparency of management.

Proposals submitted to power companies did not receive much attention from society at first, but the electricity shortages following the Great East Japan Earthquake of 2011 and public unease regarding nuclear power brought greater interest in proposals based on the shareholder rights. A particularly notable change since 2011 has been the involvement of municipal bodies with companies, such as the Tokyo Metropolitan Government as a major shareholder of Tokyo Electric Power Company and Osaka City as a major shareholder of Kansai Electric Power Company. This consists of engagement that includes submission of shareholder proposals and dialogue with companies regarding ESG issues. Meanwhile, the UNPRI's stress on engagement centered on asset owners has led to many joint engagement projects by signatory bodies at clearing houses. These bodies associate themselves with engagement topics proposed by lead sponsors on an extranet and collaborate in sending letters to companies. Some Japanese companies have been targeted by engagement projects. However, as yet there has been no participation by Japanese signatory bodies in joint engagement.

Despite the foregoing, looking at the way that they have exercised shareholders' voting rights, institutional investors have been reluctant to support shareholder proposals, remaining cautious about associating themselves with proposals concerning social and environmental issues.

3. Changes in Japanese Institutional Investor ESG Thinking Apparent From Shareholders' Meetings

Japanese institutional investors' attitude to ESG has changed steadily since the publication of our last report. Seven investment management companies have signed the UNPRI since 2012, and signatories to date include several trust banks and investment management companies.

Figure 3-3-1. Japanese UNPRI signatories
(as of November 10, 2013, Alphabetical order)

Asset owners (pensions, insurance, etc.)
Fuji Pension Fund
Kikkoman Corporation Pension Scheme
Secom Pension Fund
Sompo Japan Insurance Inc.
Taiyo Life Insurance Company
Asset management organizations
Asahi Life Asset Management Co., Ltd.
Alternative Investment Capital Limited
Daiwa Asset Management Co., Ltd.
Daiwa SB Investments Ltd.
DIAM Asset Management Co., Ltd.
Mitsubishi Corp.-UBS Realty Inc.
Mitsubishi UFJ Trust and Banking Corporation
Mizuho Trust & Banking Co., Ltd.
Nikko Asset Management Co., Ltd.
Nissay Asset Management Corporation
Nomura Asset Management Co., Ltd.
Resona Bank Limited
Sompo Japan Nipponkoa Asset Management
Sumitomo Mitsui Asset Management
Sumitomo Mitsui Trust Bank
T&D Asset Management Co., Ltd.
Tokio Marine Asset Management Co., Ltd.
Tokio Marine Capital Co., Ltd.
Service providers
Ark Alternative Advisors Co. Ltd.
CSR Design Green Investment Advisory Co., Ltd.
Integrex Inc.
QUICK Corp.
The Good Bankers Co., Ltd.

Note: Highlighted organizations became signatories from 2012
Source: Prepared by author based on UNPRI website

Accompanying this movement, Japanese institutional investors are gradually becoming stricter in exercising voting rights and most of their proxy voting guidelines are approaching global standards. Ten or more years ago, Japanese institutional investors supported all management proposals, but now it is considered reasonable to oppose company proposals and support shareholder proposals instead. In 2011, for example, Nomura Asset Management changed its policy by expressing opposition to takeover defense measures in principle. Institutional investors are also increasingly pursuing engagement with companies, mainly in the corporate governance field. Almost none of this activity is taking place publicly, but there is lively discussion of such issues as the problems of outside director and outside auditor independence as well as compensation and retirement benefits for directors and corporate auditors. Companies are beginning to respond to these discussions more and more, appointing highly independent outside directors, and introducing performance-related compensation and abolishing retirement benefit systems for directors and corporate auditors. In this way, engagement by institutional investors is encouraging improved corporate governance. For example, as of September 2013, among Japanese companies, 62.3% (1,092 companies) of those listed on the Tokyo Stock Exchange had appointed one or more outside directors, an increase of 7.0% (162 companies) year on year[3].

Discussion regarding the Japan's Stewardship Code (standards for institutional investors) represents another opportunity, and there are promising signs of spreading awareness and response to ESG issues.

3 Tokyo Stock Exchange presentation materials
http://www.tse.or.jp/rules/cg/white-paper/b7gje60000005ob1-att/b7gje6000003ukm8.pdf

4 Integrated Reporting and Japan

1. Outline of Integrated Reporting

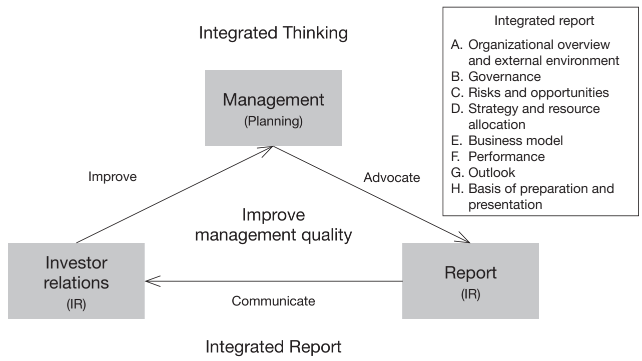
On December 9, 2013, the International Integrated Reporting Framework was published. The Framework was developed over a three-month consultation period from April 16 to July 15, 2013, during which 359 public comments were received from all over the world, before being finalized following a review of those comments and necessary revisions. In addition, the Basis for Conclusions and Summary of Significant Issues was prepared, based on summaries and points of contention in the comments as well as responses to those points, and published at the same time as the Framework. Numerous comments were received from Japan during the consultation period. The Framework advocates a way of thinking about a wide range of values and value creation, not only limited to principle-based accounting and financial capital, and the proactive involvement of managers. However, the descriptions used are complex and relatively long with many expressions companies that publish integrated reports, and the institutional investors who read them, find difficult to understand. Consequently, among the comments there were calls for a clearer definition of "value." The Framework has been downloaded from the IIRC website more than 10,000 times.

This new Framework for corporate reporting was developed by the International Integrated Reporting Council (IIRC), a global coalition of regulators, investors, companies, accounting professionals, and NGOs. The IIRC has Memorandums of Understanding and cooperates with seven organizations: the International Federation of Accountants (IFAC), the International Accounting Standards Board (IASB), the Global Reporting Initiative (GRI), the Carbon Disclosure Project (CDP), the Climate Disclosure Standards Board (CDSB), the World Business Council for Sustainable Development (WBCSD), and the World Intellectual Capital Initiative (WICI).

The IIRC developed the Framework with the goal of contributing to global financial stability and sustainable growth, aiming to embed "integrated thinking" into business activity around the world through integrated reporting (<IR>). Integrated thinking breaks down internal silos and reduces duplication, unifies reporting processes, and increases efficiency, and the Framework states that it is the foundation for <IR>. Integrated thinking is explained in more detail below.

The difficulty of achieving sustainable development, due to the short-sighted nature of corporate behavior and the short-termism apparent in investor activity, forms the background for the start of <IR>. By reporting the future value they aim to create and the visions and specific policies through which they will achieve this, as well as attracting investors in empathy with their style of management, companies can secure a stable supply of mid-to-long-term capital and put into practice the management they have described. To bring about this virtuous cycle, it is important for companies to produce a report that gives a long-term value-creation scenario, including information not only about financial factors but also intellectual property, human resources, stakeholder relations, and other matters. This is <IR>.
As Figure 4-1-1 shows, by including medium-to-long-term management policies in a report and supplying this to investors, it is possible to increase investor understanding of management. Also, if those investors actively involve themselves in governance through exercising voting rights, they can also increase management quality. The eight Content Elements laid out in the Framework represent the necessary information for creating this virtuous cycle, and integrated thinking is an important concept for incorporating these elements into a report that meets long-term investors' needs. As a result, <IR> makes it possible to attract investors in agreement with medium-to-long-term management policies.

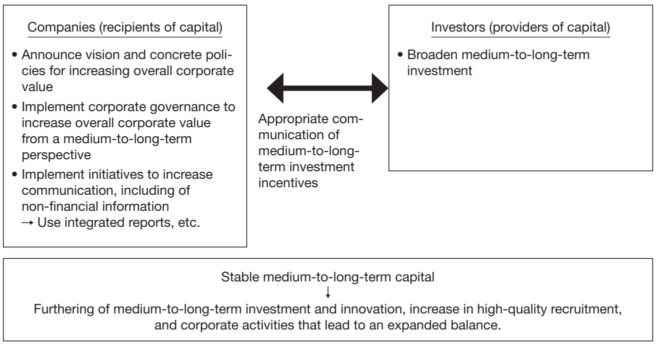
Figure 4-1-1. Overview of <IR>



On April 22, 2013, the Japanese Cabinet Office set up an expert committee for realizing a desirable market economy with the aim of discovering a market economy system that makes possible sustainable growth and subsequently disseminating these details to the world. This committee conducts research into how companies can challenge themselves in new growth fields as well as market economy systems that return the results of successful performance to society. On November 1, 2013, it published a report based on its findings. The desirable market economy system in the report is defined as one that is not focused too heavily on a "money game," where players chase short-term profit out of line with reality. Instead, it is sustainable, based on a reconstruction of Japan's previous experience, and led by the real economy in which value is continually created. The report states that to realize this system, it is necessary to correct short-termism among investors and short-sighted corporate behavior. This is the same as the background to the start of <IR>.

According to the report, in 1992 the average stock holding period on the Tokyo Stock Exchange was more than five years, but in recent years it has fallen to less than a year. Meanwhile, companies are taking a short-term perspective, working to improve performance and restructure their businesses for immediate benefit, which will lead to lower future economic activity due to a decrease in new business among other factors. This reality makes it difficult to implement corporate management based on medium-to-long-term relationships of trust. The report states that Japanese companies are facing the huge issue of securing the medium-to-long-term capital to foster innovation and achieve continued growth. <IR> is suggested as a tool for solving this issue. As well as financial information, it concisely presents the range of information required to analyze and assess companies, including information related to the environment, global society, management strategies, and the medium-to-long-term outlook. As such, the committee's report explains it is useful for giving the full picture of a company's activity.

Figure 4-1-2. Issues related to realization of a sustainable economic and social system



Prepared by authors based on summary of "Report by the Expert Committee for Realizing a Desirable Market Economy"

So what is integrated reporting? Based on the Framework, published on December 8, 2013, the key points of an integrated report are as follows:

1. Envisages users to be investors and other suppliers of financial capital
2. Focuses on creation of long-term value
3. Pays attention to a variety of capital as sources of value creation
4. Improves the quality of information, enabling a more efficient, productive allocation of resources
5. Is based on integrated thinking, which breaks down internal silos and reduces duplication, unifies reporting processes, and increases efficiency

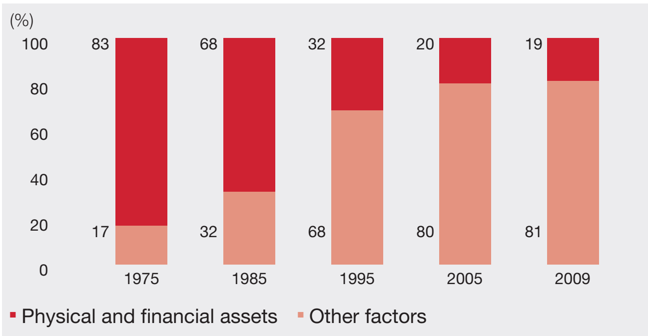
Particularly notable are the second and third points above, which talk about reporting long-term value-creation scenarios including information not only about financial factors but also intellectual property, human resources, stakeholder relations, and other matters. These points bear further examination.

(1) A Variety of Capital as Sources of Value Creation

<IR> covers an extremely wide range of values, including not only value that can be expressed as a sum of money, such as net assets and market capitalization, but also the brand value of a company and its products, and the energy and participation of employees, as well as the systems for maintaining and improving these. Why is this?

A survey by Standard & Poor's found that the proportion of a company's value represented by physical and financial assets is extremely small today compared with 20 or 30 years ago, with the remainder coming from intangible factors. Also, part of this value is accounted for in financial statements, but much of it is not. When companies try to report their true value, they have to include non-financial information as well as financial information. This is why <IR> pays attention to multiple sources of capital.

Figure 4-1-3. Components of companies' market capitalization
Components of S&P 500 market capitalization



Source: <IR> Discussion Paper "Towards Integrated Reporting Communicating Value in the 21st Century," IIRC

The Framework categorizes the various sources of value creation into the following six sources of capital: 1. Financial capital, 2. Manufactured capital, 3. Intellectual capital, 4. Human capital, 5. Social and relationship capital, and 6. Natural capital (Table 4-1-4). However, this is just one way of categorizing capital, and it is not mandatory to follow. There is also no need to necessarily report regarding all six sources of capital. It should only be seen as one interpretation of sources of capital for value creation.

Companies increase and reduce these sources of capital or transform them into other forms of capital as they conduct their business. For example, employee training increases human capital through the use of financial capital.

Table 4-1-4. Forms of capital

Capital	Summary
Financial capital	Funds
Manufactured capital	Manufactured objects that are available to an organization for use in the production of goods or the provision of services, including buildings, equipment, infrastructure (such as roads and bridges), etc.
Intellectual capital	Intellectual property, such as patents, copyrights, and software "Organizational capital," such as systems and procedures Intangibles associated with the brand and reputation that an organization has developed
Human capital	Competencies, capabilities, and experience Motivations to innovate Motivations for improving goods and services Ability to develop and implement strategy Ability to manage and collaborate
Social and relationship capital	Shared norms and common values, trust relationships with stakeholders Social license to operate
Natural capital	Environmental resources (including air, water, land, minerals, forests, and eco-systems)

Prepared by authors based on "The International <IR> Framework"

As sources of capital that have played little part in traditional corporate reports, I would like to look at the last four of these (intellectual capital, human capital, social and relationship capital, and natural capital) in more detail.

(1)-1 Intellectual capital

Naturally, this includes intellectual property, including patents, copyrights, software, and licenses, as well as the intangible assets brand and reputation. Recognition from consumers and a brand and a reputation that differentiate a company from its competitors bring many kinds of value to a company apart from financial profit, such as in-demand staff and business partners. For example, for Chanel, Tiffany, and other companies in the fashion industry, brands are a key value driver, drawing in consumers who cannot get enough of their products. Systems and procedures set up by a company are also included in intellectual capital. Many companies have unique systems and procedures, developed through long experience and acquisition of knowledge, which play a part in daily operations. These make use of inventive techniques and have a great influence on the productivity and efficiency of business activities. For example, internal systems for regularly gathering customer information, achieving a fine grasp of those customers' needs, and supplying new products to the market without loss of time are considered to be intellectual capital. Rapid decision-making systems and procedures that help companies remain competitive in global markets are also part of intellectual capital. For companies for which it is an important factor in business success, this form of capital can cover an extremely wide range.

(1)-2 Human capital

As well as employees' capabilities, human capital includes their energy and ethical values, such as the motivation to innovate, company loyalty and pride, leadership, and teamwork. These are essential for realizing long-term growth. As lifecycles for products and services become shorter, it is difficult for companies to grow without continuing to develop new products and services in response to the constantly changing market. Under these circumstances, it is extremely important to maintain and improve not only technology and know-how, but also the energy and participation of employees to bring vitality to organizations. In fact, recognizing this importance, several companies are already working on motivation management. Further, many companies are strongly conveying the message that human capital is a source of corporate value creation and making active efforts to increase employee satisfaction. There are also numerous companies drawing up codes of conduct to maintain employee ethics. In many cases, employee capabilities, energy, and ethical values will become important factors in companies' long-term growth.

(1)-3 Social and relationship capital

Social and relationship capital is made up of relationships with external stakeholders, shared norms, and common values or, to put it simply, the link between a company and society. Specifically, it includes such aspects as the support and shared sentiments of customers, good relationships with business partners and regulators, and cooperation with local communities. In the manufacturing industry, for instance, supply chain management is a factor that affects costs and customer satisfaction. If a company has a major plant in a region where labor disputes are common, a good relationship with local workers is an important element in preventing strikes, while the relationship with the local authorities may also have a big effect on the ease of conducting business activities. When a mining development company conducts a development project, it makes contributions to the local community at the same time. This is because the company requires a social license to operate when it carries out development. These kinds of social relationships are becoming more important to companies in conducting their operations, with a great influence on corporate value.

(1)-4 Natural capital

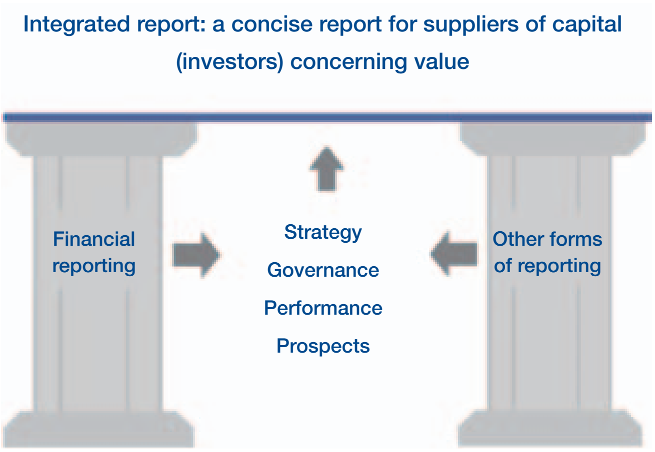
Many companies make use of natural resources in the course of their business and are easily affected by environmental changes. Pollution or depletion of water, air, forests, minerals, food resources, eco-systems, and other natural resources may even lead to companies being forced to alter their business models. It is very important that companies relying on natural capital give details of its availability and economic viability.

Considering that <IR> includes intellectual capital, human capital, social and relationship capital, and natural capital, it is clear that it is extremely broad in scope. However, I should repeat that it does not require exhaustive reporting on all six sources of capital. What is required, however, is an explanation of the value-creation process, which is to say, what the sources of capital are for increased corporate value, what strategies are applied to make use of them, and what the strategic targets are. Japanese companies have long held the concept of the "three-way good"—business that is "good for sellers, good for buyers, and good for society." Modernized, this becomes management that respects the interests of various stakeholders. Expressed in the language of <IR>, it is a management style that increases overall corporate value based on an awareness of various sources of capital, not limited to financial capital. As <IR> includes a wide range of corporate value alongside return on equity (ROE) and other financial information, it may be a good method for expressing the distinctive nature of Japanese corporate management.

2. Relationship With Other Forms of Reporting

What relationship does <IR> have with securities reports, annual reports, sustainability reports, and other reports that companies are already publishing? The relationship is given in Figure 4-1-5. Sustainability reports are included in "other forms of reporting." From this, we can see that integrated reports supplement other kinds of corporate reports. For example, GRI G4 reporting discloses detailed sustainability data and is often included in sustainability reports. As <IR> does not require new reports to be produced, when necessary information is reported through other mediums, it is good to include links to references.

Figure 4-1-5. <IR>'s place within corporate reporting



Prepared by authors based on presentation materials from IIRC CEO Paul Druckman

3. Current Use of <IR> and Future Outlook

How much is <IR> being put into practice in Japan? In many cases, the Framework is being applied to annual reports because they are reports produced for investors. There are also cases where annual reports and sustainability reports are being combined into a single publication, using such titles as "Corporate Value Report," and applying integrated thinking as much as possible. The fiscal 2013 Investor Relations Activities Survey, conducted by the Japan Investor Relations Association (JIRA), found that 43 companies said that they prepared integrated reports. When taking into consideration the frequency of <IR> seminars in fiscal 2013 and the number of participants at IIRC conferences, I would estimate that more than 50 companies are working on <IR>. Current and future developments may lead to an increase in this number and a growing interest in <IR>. These developments include the introduction to <IR> in the report from the expert committee for realizing a desirable market economy, the drawing up of the Japan's Stewardship Code by the same committee alongside the Financial Services Agency, and recommendations based on consideration of the Japan's Stewardship Code regarding equity investment in public and quasi-public funds by the Cabinet Secretariat's Panel for Sophisticating the Management of Public/Quasi-Public Funds (see Table 4-1-6).

Table 4-1-6. Domestic <IR> discussions

Committee		Summary	Notes
"Expert Committee on Desirable Market Economy System"	Cabinet Office	It is necessary to broaden stable medium-to-long-term investment to stimulate corporate activities that lead to an expansion balance, increase high-quality recruitment, and improve medium-to-long-term investment and innovation. • Announcement of vision and concrete policies for increasing corporate value (integrated report) • Fiduciary responsibilities of institutional investors (Japan's Stewardship Code)	"Report by the Expert Committee on Desirable Market Economy System," November 1, 2013
"Panel for Sophisticating the Management of Public/Quasi-Public Funds"	Cabinet Office	Necessary to target increased returns, with long-term investment as a prerequisite, when investing public and quasi-public funds in equity. Also desirable to draw up policies taking into consideration the results of discussions concerning the Japan's Stewardship Code and respond to companies entrusted with funds in line with these policies.	"Report," November 2013
Japan's Stewardship Code Review Panel	Financial Services Agency	Considering the Japan's Stewardship Code, with reference to the UK Code, that targets the appropriate fulfilment of fiduciary responsibilities by institutional investors. Key points: • Thorough dialogue, shift in orientation of management of company invested in toward long-term growth • Vote appropriately on resolutions at shareholders' meetings • Disclose results of dialogue and exercise of voting rights	Due to reach conclusions on policies by the end of 2013

(Column) G4 Sustainability Reporting Guidelines

The fourth version of the Sustainability Reporting Guidelines (G4) was published in May 2013. With this version, there have been substantial changes since the third version (G3) that dealt with the important issue of materiality. The Sustainability Reporting Guidelines written by the Global Reporting Initiative (GRI), an international NGO that promotes the disclosure of a company's non-financial information, have undergone several versions since the first edition was released in 2000. With each version, the international influence of the guidelines has grown, so much so that they have currently become the de facto standard for sustainability reports. The diffusion process associated with the guidelines has also contributed greatly to the spread of CSR for companies. As a result, currently more and more businesses have been releasing CSR information. In the situation where investors evaluate a company, the opportunity to use this information as ESG information is increasing. Amidst all these changes, the focus of the guidelines has changed from emphasizing disclosure of information to emphasizing how that disclosed information is used. This can be said to be the background of the latest version.

If you were to summarize the outline of the latest version to the guidelines in one phrase, it would be "the shift to reports with a materiality focus." Setting aside the concept of comprehensive disclosure that has been emphasized up until now, the selection and concentration of a report's content has become the main issue being focused on. In the G4 Sustainability Reporting Guidelines, a company should classify all major issues, conduct strategic management to deal with the identified issues that includes commitment from management, identify the range of boundaries of management, and report the results in detail, more than any other item in the report. This change emphasizes that disclosed information should be user-friendly. (Actually, this version considers distributing a company's disclosed information in XBRL format.) Also, the new version abolishes the GRI Application Levels that were introduced in the third version as an indicator for the thoroughness of disclosure. In this version, we do not see any change in GRI's consideration of stakeholders and their belief that the selection of major issues should be done through engagement with them. On the other hand, we can see that the GRI is carrying out changes to meet the demands of an era surrounded by the disclosure of company information.

One characteristic we see in the G4 guidelines is the guidelines conforming to the IIRC's final framework for integrated reporting, published in December 2013. Because taking a principle-based approach to integrated reporting does not identify the measurement of an individual index, or standards for information disclosure, the G4 will likely become a practical standard for the disclosure of non-financial information in integrated reports.

That is to say that non-financial information disclosed by businesses based on the G4 guidelines will likely become the specific components of the six different sources of capital. Also, the materiality shown in the G4 will become appealing information to investors regarding the relationship with the story of long-term value creation. The GRI has always emphasized the disclosure of information oriented toward multi-stakeholders, but through this version, the GRI has reconfirmed that investors are included as a part of those multi-stakeholders.

With the opportunities that integrated reports bring, we can expect a rise in demand for disclosure of non-financial information. However, with non-financial information being provided by information vendors, we can expect that information reported as a company's own materiality will be used in various situations to analyze a company in the future. Since the G4 was published in May, we have not seen many companies following the revised guidelines when disclosing information in 2013. But moving forward, we expect the IIRC framework for integrated reporting to spread, and the use of the G4 guidelines to deepen.

5 Sustainable Finance

1. Principles for Financial Action toward a Sustainable Society

(1) Why are Principles for Financial Actions Necessary?

It goes without saying financial actions that take ESG into consideration are not a patent of SRI. When someone mentions the word "finance," bank finance may be the first thing that comes to mind. However, elements of ESG can be introduced into a great variety of businesses, for example, insurance businesses such as life and damage insurance, security businesses such as agencies that buy and sell marketable securities, investment banking businesses such as underwriting and M&A advising, as well as trusts and leases. How ESG elements are introduced varies by business. If we use bank finance as an example, takings steps to finance renewable energy and energy conservation businesses, or taking the greatest possible precautions in project finance to make sure relevant businesses are not harming the environment or violating human rights, are ways of putting ESG into practice.

However, implementing these types of efforts into existing businesses can be difficult. ESG is a new area for financial institutions. It is difficult to see the incentive of spending money to develop products and services when there is no guarantee of success. There is a significance for the industry to create a market while cooperating laterally to disperse costs, share knowledge, and encourage stakeholders. Internationally, the UNEP FI (United Nations Environment Program, Financial Initiative), PRI (Principles for Responsible Investment), PSI (Principles for Sustainable Insurance), and Equator Principles in the project finance business are playing this role.

We should consider the Principles for Financial Action towards a Sustainable Society (Principles for Financial Action for the 21st Century), which will here on be referred to as the "principles," as the Japanese version of these principles. The principles were formulated in October 2011, and signatory applications from financial institutions in support of the principles began the following month. Currently, as of the end of September 2013, we have reached 188 financial institutions participating in the principles, including major businesses, regional banks from all prefectures, and credit unions. It is safe to say that the foundation of the financial community's collaboration to promote ESG businesses was put into place by the principles.

(2) The Details and Aim of the Principles

The starting point for the formulation of the principles was the proposal "The relationship between environment and finance—The new financial role toward a low carbon society," which was found in a summary report filed by the Committee on Finance and the Environment, a part of the Ministry of the Environment's Central Environment Council, in 2010. Receiving this proposal, committee member Takejiro Sueyoshi became the original promoter, and the Ministry of the Environment became the head office. Following this, financial institutions that endorsed the principles assembled voluntarily and organized a drafting committee. The drafting committee met seven times starting from September 2010. Also review sessions to decide on the individual guidelines for the principles were held 17 times in working groups according to business. The drafting of guidelines for the principles was eventually finished at the seventh meeting of the drafting committee in October 2011, at which point the guidelines were adopted. Also, a management organization was decided on and official regulations were put into place in order to implement the principles.

As we mentioned in the beginning, the word financial institution refers to various business categories such as banks as well as insurance and securities companies. Also, although megabanks such as national banks, regional banks, credit unions, and credit associations may deal in similar businesses, mutual interaction between them is actually quite rare. Financial institutions, regardless of business category or size, coming together to decide on a set of principles, is an extraordinary case among extraordinary cases. A year's worth of time was devoted to the drafting process. The drafting process was not the common process in which the Ministry of the Environment makes a draft and the drafting committee deliberates over it. Rather, the draft was crafted literally from nothing, which required a great deal of time and effort in order to complete. The authors belonged to general working groups that formulated the main text of the principles. We believe that the efforts of so many people will not end up going to waste.

The principles define the basics of a sustainable society as "being able to live today free from the fear of tomorrow." It would not have been possible to define a sustainable society in such a way if the Great East Japan Earthquake did not happen during the drafting process. The original proposal by the Ministry of the Environment was to formulate principles that concentrated on the environment. The pros and cons of such a proposal became a major point of debate in the drafting committee, but after the Great East Japan Earthquake, there were no more objections to making principles toward a sustainable society. This was because after personally seeing the damage done by such a devastating earthquake, financial institutions realized the issues they needed to take action on were overwhelmingly widespread. As a result, the principles became to be principles that followed ESG, the tidal current of sustainable global finance.

The aim of the principles is stated clearly in the second paragraph of the preamble. It states "In order to steer society toward sustainability, we need to change the flow of money to those activities which correspond to such sustainability goals." This statement explains that by directing money where society most needs it, "the sustainability of society increases as a result of the most appropriate distribution of various resources between economic agents, regions and generations." It can be said that this is originally the fundamental purpose of financial institutions, and also the origin of business.

In addition, the two main roles that the Japanese financial services sector plays in order to transform Japan into a sustainable society are specified in the fourth paragraph of the preamble. The first role "requires not only to secure the safety of vital infrastructure against natural disasters, but also to support local communities and national industries in improving their sustainability and strengthening their competitiveness." Of course, we must not fall into the trap of thinking that by simply developing our own country, we can maintain our presence in the global market. Here the last half of the fourth paragraph declares the second role as "increasing sustainability as a global citizen." This emphasizes the need to cooperate with international organizations such as the PRI and the UNEP FI to work toward solving global environmental and social issues.

While it is important to treat sustainability as a business opportunity, if sustainability is compromised, it may cause a crisis to a company's existence. Therefore, I feel it is also important to recognize sustainability as a primary risk factor. In other words, as social and environmental issues are beginning to have a deep impact on society, financial institutions must anticipate changes without falling behind, and they must cultivate knowledge to be able to identify what is a risk and how much risk can be permitted. We can call this a "precautionary approach" toward risk. The fifth paragraph of the preamble principles to the states "Even where scientific findings include uncertainties, if there is a high risk of a significant negative impact on the environment or society, then it would be beneficial to be attentive and cautious in business." In the 21st century, forecasting risk is difficult. However, the point here is that financial institutions that can control risk and change it into an opportunity, will find themselves with a competitive edge.

(3) The Contents and Characteristics of the Principles

There are seven principles that make up "the principles." Each principle has its own circumstances on which it was made, but in this section I would like to emphasize the importance of the second and fourth principles. The second principle stipulates "We will contribute to the formation of a sustainable global society through the development and provision of financial products and services leading to the development and increased competitiveness of 'industries contributing to a sustainable society' as represented by the environmental technologies and services sector." This highlights the importance of introducing aggressive risk management in investing and lending, and developing new financial products and services, in order to solve environmental and social issues. This means the principles should take action directly in core businesses to contribute to society, instead of being applied through volunteer social activities unrelated to core businesses.

Meanwhile, the fourth principle stipulates "In the formation of a sustainable society we will recognize the importance of cooperation with diverse stakeholders and will not only participate in its activities but will endeavor to take a proactive role." While Japan possesses superior elemental technologies, it has not seized the initiative in global environmental businesses because efforts made to integrate technology at multiple levels and create new added value have been insufficient. Although financial institutions may not play the leading role when it comes to environmental problems, they can fulfil the role of coordinator by managing diverse stakeholders, including not only companies but also NPOs as well as local communities and administrations, to guide projects to the next level.

Principles for Financial Action for the 21st Century

1. We will recognize our roles and responsibilities, taking into account the precautionary approach, and promote those actions that contribute toward shaping a sustainable society.
2. We will contribute to the formation of a sustainable society through the development and provision of financial products and services leading to the development and increased competitiveness of "industries contributing to a sustainable society" as represented by the environmental technologies and services sector.
3. From the perspective of regional development and improvement in sustainability performance, we assist the environmental programs of small and medium enterprises. We will also back activities that will raise environmental awareness amongst citizens and support disaster readiness and community activities.
4. In the formation of a sustainable society, we will recognize the importance of cooperation with diverse stakeholders and will not only participate in its activities but will endeavor to take a proactive role.
5. We will not be limited to complying with environmental laws and regulations but will take active steps to reduce our own environmental footprint through resource and energy savings as well as encouraging our suppliers to do likewise.
6. We will recognize activities that will further profile sustainability as a business issue and will endeavor to disclose information on our activities.
7. In order to implement the above actions, we will aim to raise the awareness of environmental and societal issues of our own board and support them to take an active role through their day-to-day duties.

(4) Guidelines and Working Group Activities by Business

The objective of the principles is achieved through signatory financial institutions carrying out specific actions that follow the content of the principles.. Therefore, the principles decided on three guidelines for major business activities. Also, an operations committee and business-based/theme-based working groups were systematically established by signatory institutions to promote the implementation of the principles. Concrete activities that put the principles into practice are under the responsibility of these working groups. Below, I will briefly explain the details of the five working groups' activities.

1. Asset Management / Securities / Investment Banking Working Group

This working group originates from the "asset management, securities, and investment banking sector guidelines." It is made up of three components that each play an important role in promoting ESG activities. Investment banks, act as gatekeepers that provide capital markets with financial products through underwriting and structuring securitized products, security companies sell those financial products to investors, and banks, insurance, and asset management companies fulfil the role of investor. Meanwhile, a "recommend action" under the guidelines for asset management business is to "Externally disclose its asset management and investment activities based on the six principles of the Principles of Responsible Investment". This advocates the importance of avoiding waste in the field of management, which overlaps with PRI, and encourages cooperation to create synergy. For example, in fiscal 2013, the JSIF and the first working group jointly sponsored a seminar for integrated reporting. This created an opportunity for signatory institutions to deepen their understanding about recent trends in the disclosure of non-financial information.

One of the main reasons ESG investing is not expanding in Japan is because of a lack of motivation from major institutional investors such as public pension funds. On the other hand, according to a survey by the JSIF, it became clear that sales of private investment trusts, which have driven the SRI market in Japan so far, have been gradually getting worse. In order to overcome these conditions, marketing and financial institutions, such as regional banks, must change their negative stance toward SRI. In this sense, this will be an important role for this working group to play going forward.

2. Insurance Working Group

This working group originates from the "insurance sector guidelines." It has the responsibility of promoting ESG activities in insurance businesses. I have previously emphasized the importance of the principles "precautionary approach" toward risk, and it is believed that in the ESG field as well, the insurance companies' role in dealing with risk will become increasingly larger. Based on this belief, the insurance sector guidelines describe the functional role of the insurance sector is to "provide risk finance by evaluating the economic value of risks and managing carrying risk, provide risk solution services such as loss and disaster prevention through the use of large amounts of loss and damage data, and provide accumulated information on preventative medicine and health and medical institution networks, etc." I believe that insurance companies can take action in ESG business by producing products and services that "play a role in climate change adaptation and micro-insurance" and play a role in Japan's super-aged society by "complementing the Japanese social security system in areas such as medical care, pensions, and nursing care."

Also, similar to PRI in management, there is a global initiative in the insurance sector as well called the PSI (Principles for Sustainable Insurance). Moving forward, this working group will surely advance its activities through cooperation with the PSI.

3. Deposits, Loans, and Leasing Working Group

This working group originates from the "deposits, loans, and leasing sector guidelines" and consists of the largest number of signatory financial institutions. This working group has the responsibility of promoting ESG activities in deposit, loans, and leasing businesses. The diverse business categories from participating institutions such as national and regional banks and credit unions and associations are also rich in regional variety. However, because of this diversity, it is difficult to raise groupwide efficiency, more so than any other working group. The guidelines organize the role of this working group as follows.

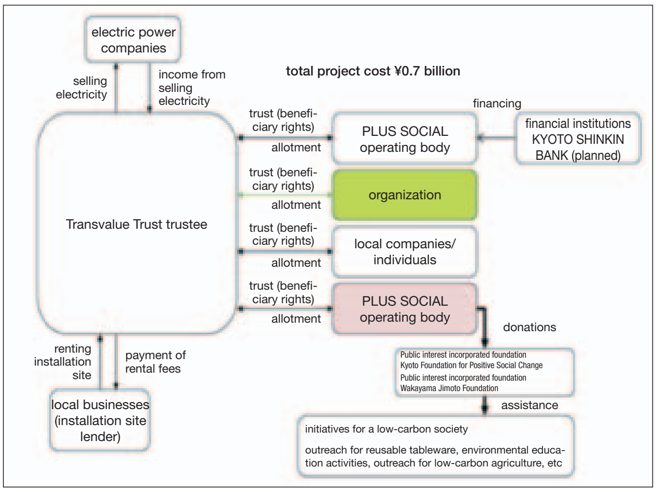
> "Support toward the transition to a sustainable society is a challenge that may be pursued within the conduct of the deposits, loans, and leasing businesses. They include activities such as undertaking environmental measures, developing finance mechanisms for new funding demands in the fields of investing in a sustainable society and the utilizing of leasing functions to promote eco-products."

However, it has been approximately two years since the principles have been decided on, and I have to say that I am exceedingly suspicious as to whether or not these types of anticipated actions have been widely promoted within the participating institutions. Actually, I often hear the opinion from people in charge of regional financial institutions the position of a megabank that develops global business is different. But now is that the case? In Japan, a country founded on trade, even regional small-to-medium sized companies are globally connected. Giving advice on climate change or strengthening competitiveness as a supplier of biodiversity is an important duty of regional financial institutions. Actually, large-scale seminars have been held for credit unions in the Tokyo metropolitan area that focused on small-to-medium companies, and an award system has also been introduced. I had the experience of listening to case presentations by owners at one of these seminars, and I was surprised by their level of knowledge. The difference in action by financial institutions must not lead to regional disparity.

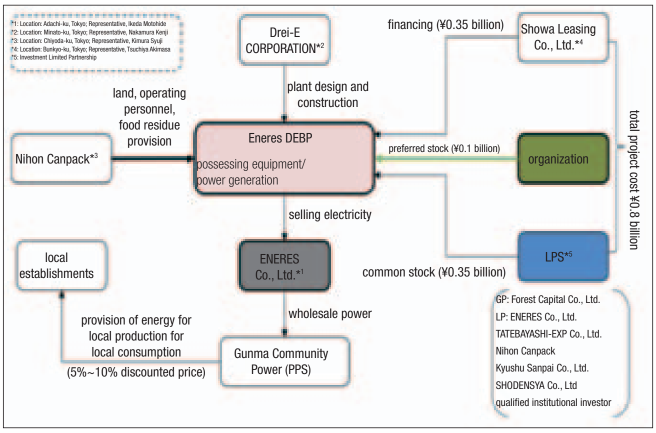
In fiscal 2013, the Ministry of the Environment established a fund to turn taxes from measures to combat global warming into capital to accelerate low-carbon investments, called the "green fund" (Green Finance Organisation JAPAN), as a strategic policy. By creating a public–private fund that invites investments and financing from regional financial institutions, support for renewable energy businesses in local areas has begun. In October 2013, green fund investment projects No. 1 and No. 2 were announced in Wakayama Prefecture and Gunma Prefecture (Figure 5-1-1), and are currently off to a favorable start. We can say that these types of activities are a model case of how regional credit unions are contributing to the Principles for Financial Action for the 21st Century.

Figure 5-1-1. Green fund investment projects No. 1 and No. 2

Solar Power Generation Business (Wakayama Prefecture)



Biomass Power Generation Business (Gunma Prefecture)



Source: Green Finance Organisation JAPAN homepage

Meanwhile, the deposit, loan, and leasing working group is providing full-scale support for fund businesses. For example, at a working group activity in fiscal 2013, regional banks in Nagano, Kagoshima, and Shiga prefectures hosted a workshop in their respective prefectures, focusing on financing renewable energy. A promotion is being planned to have a member of the green fund attend these workshops as a lecturer to explain the funds framework and planning methods. This is an independent initiative by financial institutions and demonstrates genuine cooperation between Principles for Financial Action for the 21st Century and political measures. Thinking about the future shape of the principles, this initiative is highly suggestive about what that might be. For government agencies such as the Ministry of the Environment, which is not directly related to financial administration, to take action in private finance functions, it depends on whether or not a structure can be made for policy aims to be reflected seamlessly in the daily business of financial institutions. Progress will not be made by simply making a private fund. While a large part of it is due to the fact that the Ministry of the Environment is the executive office for the principles, another reason why the cooperation stated above went smoothly is the fact that institutional designs coordinated directly with financial institutions.

4. Theme-based Working Groups

Business-based working groups have functions that accelerate concrete initiatives based on their respective guidelines. Whereas theme-based working groups, in forming a sustainable society, aim to take up relatively high-priority individual issues and have cross-sectional debates on those issues, as well as increase knowledge, and provide opportunities for mutual cooperation. While a clear decision has not been made on a motion to establish theme-based working groups, there are currently two working groups that a signatory institution has a definite number of sponsors (participating institutions) for, and have begun the entry stages of establishment in the executive office. A vote by the operating committee has formally started the establishment process via a public appeal by participants.

The environmentally friendly real estate working group was established in fiscal 2012. One-third of Japan's CO_2 emissions are caused by real estate such as residences and offices. Meanwhile, financial services are very familiar with the cash flow derived from real estate. As represented by the asset manager REIT (Real Estate Investment Trust), there are quite a few financial services that specialize in real estate. The environmentally friendly real estate working group is discussing the acceleration of ESG consideration in real estate from a finance point of view, to contribute to the improvement of Japan's sustainability

The Real Estate Sustainability & Energy-Efficiency Diffusion Organization (Re-Seed Organization) was invited to the workshop that was jointly sponsored by the deposit, loans, and leasing working group in fiscal 2013. The Re-Seed Organization manages an earthquake-resistant, eco-friendly real estate fund, a public–private fund that receives capital from donations by the Ministry of Land, Infrastructure, Transport and Tourism and the Ministry of the Environment. The Re-Seed Organization is entering into a partner agreement between numerous regional financial institutions and the Ministry of Land, Infrastructure, Transport and Tourism, to accelerate the renewal of aging or underused real estate assets. Similar to the "green fund" mentioned earlier, this promotion was conducted within the framework of the Principles for Financial Action for the 21st Century.

Meanwhile, the Community Support Working Group was established in fiscal 2013. It goes without saying that, on the path to creating a sustainable community, the environment is not the only issue. Particularly in Japan with an unparalleled radical population decrease, birthrate decline, and an overall aging population. Without an integrated approach that takes such issues into consideration, a true solution for a sustainable community cannot be found. It can also be said that residents of urban areas do not fully understand regional problems, thus leading to disparities between initiatives of national financial institutions and initiatives of regional financial institutions, which I mentioned earlier. Taking this into perspective, in its first year of establishment, this working group began sharing information and enhancing knowledge concerning the issue of a decreasing and aging population. Specifically, this group is holding study sessions with a wide range of participants, and inviting experts who are affiliated with the Ministry of Health, Labour and Welfare to attend.

(5) Conclusion

While I was hesitant to say that the working groups' activities were dynamic during their first year, entering their second year, activities have been enhanced and expanded upon. Also, during the second year, the range of activities has extended into not only the environment, but also social themes. Both in name and fact, a system has been put into place to back up ESG activities. To say the least, the Principles for Financial Action for the 21st Century has 188 signatory financial institutions from diverse business categories from all over Japan, which represents a coming together of major financial institutions. This kind of framework needs to be utilized effectively. In doing so, this will shape the way 21st century financing contributes to the formation of a sustainable society.

Reference: Tsukasa Kanai, "Cross-sectional Indicatives of the Financial World: Principles for Financial Action for the 21st Century" (Japan Environmental Management Association for Industry, October 2013)

2. The Growth of Community Investing

(1) Overview of Community Investing in Japan

Community investing can be characterized as investment activities with the goal of contributing to local communities. It makes up a division of sustainable finance and a division of traditionally classified SRI. We had to wait until the start of the 2000s to see community investing in Japan. While this sector is still relatively small, activity is becoming vigorous among NPO banks, micro investing funds[1], microfinance institutions (MFIs), and other organizations, making it possible to grasp the overall trends.

In this section, we will look at community investing in Japan, describing its current state and the course of its development while focusing on the trends that have appeared since the publication of the 2011 Review of Socially Responsible Investment in Japan.

This section aims to compare trends in Japan with those seen in Europe and the United States. Accordingly just as was done in the 2011 Review, the scope of this chapter was limited to alternative initiatives in which the main entity behind the community was citizens (citizen-financed initiatives), and excludes the initiatives of governments and traditional financial institutions (microfinance and bond initiatives recently implemented by securities companies, etc.). This section also does not cover certain types of investment and financing in the context of citizen financing that cannot be easily counted as investments and loans (mutual aid, local currency, etc.). In addition, although it has components that are difficult to call investments, we will also closely examine crowdfunding.

(2) Recent Trends

NPO banks are continuing to invest steadily. Recently, two new NPO banks have started engaging in activities. In July 2012, the "Fourth National NPO Bank Forum" was held in Fukuoka. We are also seeing a number of NPO banks actively cooperating with financial institutions. In retail NPO banking, the Japanese Consumer Co-operative Union arranged "a business model construction survey and research business for the 'life support and loan business' at regional procurement co-ops." This started the commercialization of the Miyagi Co-op.

There has been substantial and positive growth in micro investing funds in the past two years. The initiatives taken by Music Securities, Inc., represented by their "Securite' Disaster Area Support Funds," have attracted attention, and feed-in tariffs (FITs) have provided a boost. We are also seeing an expansion of "community-owned power plants," which utilize micro investment funds (Initiatives taken by Music Securities, Inc., are explained in Column.).

Since 2012, we are seeing an expansion of crowdfunding, which is a way for many people without expertise to raise monetary contributions, primarily by using the Internet. Crowdfunding is attracting a great deal of attention as a new method of fundraising (Details explained in Section 3, crowdfunding.).

In microfinance, ARUN Social Investment Forum and the Living in Peace project are steadily advancing their efforts in developing countries.

Moving forward, there are two tasks that need to be completed in order to strengthen the capacities. First is establishing a systematic framework for general community investing. Second is enhancing capacity by strengthening the network of supporters.

1 In this report, citizen's funds that provide assistance, contributions, intermediations, etc., are referred to as "citizen community foundations." Citizen's funds that invest in businesses are referred to as "micro investing funds."

(3) Conditions of Different Areas of Community Investment

1 NPO Banks

NPO banks are "established voluntarily by citizens, and originate from funding provided by citizens. They are non-profit financial institutions that finance social needs such as citizen entrepreneurs. As of December 1, 2013, the number of NPO banks in Japan has risen to 23. Of these, 14 primarily fund social enterprises (see Table 5-2-1), nine primarily provide funding to individuals in financial need[2].

Table 5-2-1. Present state of NPO banks

Source: Japan NPO-BANK Network (data as of March 31, 2013)

Unit: Thosands of yen

Organization name	Established	Type of financing	Subscribed capital	Total loans provided	Loans outstanding	Remarks	
						Financing program	Funding source other than subscribed capital
Mirai Bank	1994	Environment, social welfare, citizen entrepreneurs	¥162,334	¥1,025,341	¥55,794	Interest: 2% Max.¥3 million Max. term: 5 years	—
Women's and Citizens' Community Bank	1998	Investing groups residing in Kanagawa Prefecture, private (limited targets)	¥119,380	¥537,065	¥74,683	Interest: 1.8-5% Max. ¥10 million Max. term 5 years	—
Hokkaido NPO Bank	2002	NPO Group Workers Collective*1	¥43,109	¥302,770	¥11,803	Interest: 2-5% Max. ¥2 million Max. term 2 years	Donations 7,100
NPO Yume Bank	2003	NPOs established in principal offices within Nagano Prefecture	¥14,130	¥217,950	¥26,263*2	Interest: 2-3% Max. ¥5 million Max. term 5 years	Donations 35,180 No interest borrowings 30,000
Tokyo Community Power Bank	2003	Organizations active in fields relevant to NPO law annexes within Tokyo	¥92,850	¥200,330	¥18,440	Interest: 1.5-2.5% Max. ¥10 million Max. term 5 years	—
ap bank	2003	Renewable energy and other environmentally related projects	private	¥208,460	private	Inactive. Total loans provided as of July 2007	—
Community Youth Bank momo	2005	20 divisions of NPOs, sole proprietorships, private organizations, corporations	¥52,035	¥88,650	¥18,338	Interest* 2.5% (Bridge financing: 2.0%) Max. ¥5 million (by principle) Max. term 3 years (by principle)	—
Natural House Bank	2008	20 divisions of NPOs, private	¥64,060	¥40,100	¥18,435	Interest: 0-2.0% Max. ¥3 million Max term. 10 years	—
Moyai Bank Fukuoka	2009	NPOs and other social entrepreneurs that operate in Fukuoka Prefecture and surrounding areas	¥12,430	¥17,320	¥5,526	Ineterst:1.5-3.0% Max.¥ 3 million Max. term 5 years	—
Shinrai Zaidan	2009	Private, corporation not relevant, juridical personality not relevant, area of activity (country) not relevant	¥0	¥57,320	¥12,185	Interest: 0% Max: ¥3 million Max term. 2 years	Donations
Piece Bank Ishikawa	2010	NPOs that are active in the 20 divisions of NPOs within Ishikawa Prefecture, sole proprietorships, private organizations	¥9,471	¥12,900	¥5,669	Interest: 3.0% (Bridge financing 1.0-3.0%) Max.: 3 million Max. term 5 years	—
Entrepreneurship Support Program for Refugee Empowerment	2010 (Public interest recognized in 2012)	Projects by refugees residing in Japan	¥3,000	¥1,000	¥1,000	Interest: 3.0-7.5% Max. ¥1 million Max. term 5 years	Donations and project revenue (Subscribed capital column is funds outstanding)
Hachidori Bank Financing (Operations began December 2012)	2011	Private/group offices within Toyama Prefecture, private/group activities related to Toyama Prefecture	¥6,700	¥500	¥500	Interest: 1-2.5% Max. ¥3million Max. term 3 years	
Mutosu Iida citizen fund	2008	Specified non-profit corporations within Iida city	¥7,001	¥13,000	¥3,300	Interest: None Max. ¥2 million (max. term 6 months) ¥1 million (max. term 2 years)	Donations 2,000
Total			¥586,500	¥2,722,706	¥251,936		
Compared with previous fiscal year			103.30%	108.80%	102.00%		
Japan Credit Union	1968	Church and church groups, NPOs, religious orders, etc.	¥263,000	Exceeding ¥1 billion	¥262,000	New loans have been suspended since January 2013	Continuation of collection services and lifestyle consultations

*1. "Workers Collective" is not related to employers or employees, but rather refers to a group of workers who invest jointly and work equally as entrepreneurs. It refers to cooperatives that commercialize necessary regional goods and services as citizen entrepreneurs.

*2. NPO Yume Bank's loans outstanding is surpassing subscribed capital. However, this is due to loan capital other than subscribed capital. (Final revision: June 5, 2013)

In social enterprises, the Entrepreneurship Support Program for Refugee Empowerment and Hachidori Bank started financing ventures in 2012. In efforts to help those in need of financial assistance, the Miyagi Co-op began its "life and family finance recovery support loan business," in September 2013. Meanwhile, the Japan Credit Union finished its acceptance of new loans in January 2013. At the end of March 2013, the accumulated total of loans provided by the 14 groups that primarily fund social enterprises rose impressively to ¥2.7 billion.

Aside from loans, NPO banks provide support to loan recipients through the following:

1. "Momo Ranger," a young group of volunteers from the Community Youth Bank momo, who provide support to businesses of loan recipients
2. "Investor Report," by the Ishikawa Piece Bank, written by investors who visit loan recipients
3. "Shikin Junkan Tours," by the Tokyo Community Power Bank, where investors visit loan recipients

In July 2012, the "Fourth National NPO Bank Forum" was held in Fukuoka, attended by 196 participants (151 participants on the first day, 139 on the second). As bearers of finances to social businesses, other similar events are expected by the NPO Bank Forum, such as panel discussions on creating a society sustained through mutual assistance and government training seminars.

In addition, the "credit union and workers' credit union pro bono project"[3] undertaken by the Community Youth Bank momo, provides raised awareness of regional issues to members of financial institutions. In these areas, cooperation with financial institutions is progressing.

Concerning NPO banks that provide support to those in need of financial assistance, the Japan Research Institute coordinated a "survey and research project concerning the possibility of constructing a system for microfinance in Japan, and the ways such a system should be implemented."[4] In April 2013, the Japanese Consumer Co-operative Union coordinated a "report on the business model construction survey and research project for the 'life support and loan business' at regional procurement co-ops." The start of operations by the Miyagi Co-op is considered to be a backdrop of these projects. Also, at the Ministry of Health, Labour and Welfare, a "self-reliance support bill for those in need of financial assistance" was submitted to an extraordinary Diet session. The bill proposed a "family finance consultation and support program" that would conduct consultation about family finance, guidance on how to manage family finances, and loan mediation. These types of political support are drawing our attention moving forward.[5]

2 Trust Co-operatives (Iwate Prefecture, etc.), Life Support Foundation (Tokyo), Lifestyle rehabilitation services by Green Co-op (Fukuoka, Kumamoto, Oita, Yamaguchi, and Nagasaki prefectures), Miyagi Co-op, Anti-poverty cooperation networks
3 Details found on http://blog.canpan.info/bank-probono/. Note, similar initiatives were implemented by Seto Credit Union and Tono Credit Union in fiscal 2013.
4 Refer to http://www.jri.co.jp/file/column/study/pdf/6809.pdf (Japanese)
5 Refer to http://jccu.coop/kurashi_tasukeai/welfare/pdf/topics_20130419_01_01.pd (Japanese)

2 Micro Investment Fund

A micro investment fund is described as "collecting a small amount of capital in the form of a silent partnership of citizens, and carrying out 'citizen project financing,' which invests in businesses and projects that are difficult for banks to finance." Therefore, there is no principal guarantee on capital.

Micro investment funds began drawing attention in 2001 due to the first citizen-operated windmill, "hamakaze-chan." Since then, micro investment funds gradually began to widen as a method of fundraising for social businesses related to natural energy. In 2009, the range of micro investment funds spread even further with the appearance of Music Securities, Inc.

There are three supporters of micro investment funds that we have confirmed so far, and the details of their operations are listed in Table 5-2-2 below.

Table 5-2-2. Microfinance operation details

Relating to Music Securities, Inc.	219 funds, approx. ¥3.928 billon[6]
Relating to natural energy	14 projects, ¥4.3 billion[7]
Regional activity fund (100 year community start fund) (investing in residents for the elderly, etc.)	¥5.840 billion

For more about the efforts of Music Securities, Inc., please refer to the column "'New financing that collects small investments from 'fans' to support aspiring businesses."

6 From the site http://www.securite.jp/ (Japanese)
7 From Page 173 of "White Paper and Natural Energy" (Institute for Sustainable Energy Policies edition, NANATSUMORI SHOKAN INC.)

3 Crowdfunding

While there are leading examples of crowdfunding overseas with funding platforms such as "Kickstarter," the introduction of "READYFOR?" in March 2012, started the spread of crowdfunding domestically. Just from our review alone, there are over 50 funding platforms being created. Contribution-type and purchase-type platforms are having an especially easy time entering the market. (Refer to Section 3 of this chapter for further details.)

4 Microfinance

Microfinance is described as "financial activities targeting poor and low income groups, to encourage their economic independence." In Japan as well, NGOs such as Oiko Credit Japan, Living in Peace, and ARUN Social Investment Platform are continuing to advance projects in developing countries. As stated before, new domestically focused initiatives are being created, and policy support is beginning to progress.

(4) Projected Future Developments and Challenges

1 Establishing a systematic framework for general community investing

As I have stated up until now, although various activities have been carried out by community investors, NPO banks have had no choice but to record them as money lenders. Acquiring a "Chiefs of Money Lending" qualification (believed to take around 200 hours of study to acquire) is becoming a large hurdle for new establishments. In addition, as a rule, it is necessary to register with type II financial instruments business to take applications for micro investment funds. Therefore, barriers to enter the market are extremely high.

Moving forward, if we are to rank community investing as "investing activities that aim to contribute to the regional society," establishing a systematic framework is essential, in order to easily utilize citizens in every type of community-investing platform, while giving forethought to safeguards for investors and borrowers.

2 Enhancing capacity by strengthening the network of supporters
If we look at the networking between supporters of community funding, we are seeing initiatives being taken by supporters of similar arrangement, such as the NPO industry group, the Japan NPO Bank Network, and the "Community Power Initiative," formed in June 2013 by supporters of a citizen-owned power station. On the other hand, we are not seeing any advances in efforts among different kinds of supporters.

However, looking through the eyes of people demanding capital, when raising funds, it is important to use every method of fund raising properly (loans, investments, contributions, and indirect and direct financing). Because of this, I believe that enhanced capacity, which meets the expectations of those demanding funds, can be achieved through strengthening the network of supporters.

3. Crowdfunding

(1) Japan's Reception to Crowdfunding and Types of Crowdfunding in Japan

While there are leading examples of crowdfunding overseas with funding platforms such as "Kickstarter," the introduction of "READYFOR?" in March 2012 started the spread of crowdfunding domestically. Just from our review alone, there are over 50 funding platforms being created. Contribution-type and purchase-type platforms are having an especially easy time entering the market.

It is commonly accepted that crowdfunding is separated into three types based on returns to funders (Table 5-3-1). However, the backbone of all three types of crowdfunding is empathy by the provider of funds in the ideas and beliefs of the recipient of the funds.

Table 5-3-1. Types of crowdfunding

Donation type	Contributed cash is treated simply as a donation. This is also called an "online donation site."
Purchase type	Returns are acquired from goods and services that are dependent on donated cash. This type is often referred to as the typical example of crowdfunding. There is a strong sense of gratitude and advanced purchase in the returns.
Investment type	Contributed cash is met with a financial return. There are three sub-types of investment-type crowdfunding. 1. Soliciting equity contributions of anonymous associations 2. Soliciting stock 3. Performing loan mediation These three sub-types are called "association-type," "share-type," and "loan-type," respectively.

(2) Present Condition of Crowdfunding Platforms

Below I will briefly explain crowdfunding by type.
1 Donation type
Online donation sites such as "Yahoo! Volunteer" and "Give One" have existed before the concept of crowdfunding. Recently, donation sites are continuing to be established. From our reviews alone, there are 15 such sites that have been established.

Also, "citizen community foundations," which conduct donation mediation and assistance through purposeful capital from citizens, are being created in various regions. Some hold the opinion that these foundations can be included in donation-type crowdfunding.
2 Purchase type
Purchase-type crowdfunding ("READYFOR?," "Campfire," "Motion Gallery," etc.) is the representative platform of crowdfunding itself. A large amount of "purchase-type" crowdfunding sites have appeared that specialize in specific areas such as:
- Craftsmanship ("Cerevo DASH," "zenmono," etc.)
- Community-based issues ("FAAVO" (developing regionally in Saitama and Ishikawa Prefectures), "iikuni" (Kamakura), etc.)
- Social entrepreneurship ("CHANGE MAKER," "Challenge Star," etc.)
- Sports ("ALLEZ!JAPAN," etc.)
- Anime ("Anipipo," etc.)

Moving forward, one thing that should particularly have our attention is the major Internet business CyberAgent, Inc.'s entrance into crowdfunding with "Makuake." In addition, the sponsor of the online donation site "JustGiving Japan," Daigo Sato, is launching a new site called "Shooting Star," which is drawing attention as well. Both sites are enhancing appeal by discovering new projects that have a high degree of social attention, such as journalism projects and cinematography projects. Through these trends, it is believed that selection within the field of "purchase-type" crowdfunding will advance.
3 Investment type
As mentioned previously, there are three sub-types of investment-type crowdfunding. Here I will list some examples of each style:
- Association type: In addition to Music Securities Inc.'s "securite," micro investment funds (See Section 2.) may also be included in this type.
- Loan type: Three companies exist that deal with this type, maneo, aqush, and SBI Social Lending Inc. However, in December 2013, "Crowd Bank" was started, marking the first entry to the market by a securities company.
- Share type: This platform does not currently exist in Japan. However, due to future deregulation, it is thought that newcomers to this field will make an appearance.

(3) The Backdrop Drawing Attention to Crowdfunding and Society's Reaction

Two factors make up the backdrop that is drawing attention to crowdfunding:
1 The popularization of social networking sites (SNS), which allows for the easy transmission of empathy to others.
2 It is thought that there was not any other appropriate methods to raise funds for turning ideas for social projects, art, and craftsmanship into action.

However, according to a LiviGen Inc. survey of smartphone users, only 13% were aware of crowdfunding, and only 4% had used crowdfunding before. Therefore, it would be appropriate to say that crowdfunding's permeation into society is something that has yet to occur.[8]

8 From https://www.smartsurvey.jp/board/press_view/142

(4) Improving the Environment Surrounding Crowdfunding

In the environment surrounding crowdfunding, the regulations for donation- and purchase-type crowdfunding are moderate (such as the regulations from the Act on Specified Commercial Transactions), allowing for the creation of a multitude of platforms. However, this also raises concern for the appearance of fraudulent projects. Meanwhile, investment-type crowdfunding, it is necessary to register as a type I financial instruments business to be able to handle the recruitment of stock. Also, it is necessary to register as a type II financial instruments business to handle the recruitment of equity funds. In addition to this, it is effectively impossible to directly conduct loan mediation (although being an "intermediary" is a duty of money lenders, becoming a customer of an intermediary and then investing funds, runs the risk of that customer being viewed as a money lender). Strict regulations such as these are an obstruction to newcomers to the market.

In response to these conditions, progress is being made on establishing a crowdfunding council, in order to further manage crowdfunding, define basic principles and guidelines, and to steer the development of crowdfunding in a safe and secure direction.[9]

Additionally, the Financial System Council's working group, which deals with the current state of risk management provision to new and growing corporations, is considering relaxing regulations on investment-type crowdfunding. At this time, the following was being considered to relax asset regulations:

1. In dealing with the recruitment of unlisted stock, people using the Internet to invest in small amounts (investment of under ¥500,000 per person, with an assumed total amount of issuance less than ¥100 million) would be considered a type I special-case trader.
2. In dealing with the recruitment of equity funds, people using the Internet to invest in small amounts would be considered a type II special-case trader.

However, although it remains unclear whether or not these deregulations will fulfill the needs of crowdfunding supporters and investors, we would like to remain hopeful on future debates concerning crowdfunding.

9 Refer to http://safe-crowdfunding.jp/ (Japanese)

(Column) New financing that collects small investments from "fans" to support aspiring businesses

1. Over 200 funds, starting from music funds to alcohol and sports funds

In December 2000, Music Securities, Inc., was created under the motto "more freedom for music." Currently, they are providing micro investment funds domestically, as well as in countries around the world, such as Cambodia and Vietnam. Through micro investing that allows small investments around ¥10,000 to ¥50,000, they are connecting individuals with highly skilled, aspiring business people.

Music Securities, Inc., started their music and music fund business as a structure to support the activities of determined, independent artists. They have handled approximately 70 music funds to date. These funds have brought forth albums that have reached the top three on the Oricon Chart, and artists such as "AK-69," a leading figure in the Japanese hip-hop scene.

Composition of other funds, aside from music, started in 2006. Currently, Music Securities, Inc., is managing over 200 funds in a wide range of areas. Among these are funds for sake breweries that do not use distilled alcohol, breweries that make aged sake without added alcohol or sugar, a fund for businesses striving to revitalize the regional lumber industry in Nishiawakura in Okayama Prefecture, a town that is over 90% forest, a fund that cooperates with Parco Co., Ltd., to support young designers, funds for J-League teams, and funds that support micro finance institutions in Southeast Asia.

In 2011, Music Securities, Inc., started a disaster relief fund to support businesses in regions devastated by the Great East Japan Earthquake. Thirty-seven companies started 39 funds, which have had over 27,000 participants that raised over ¥1 billion. In addition, in 2013, Music Securities, Inc., started two projects, "Security Energy," which supports renewable energy businesses, and a project in cooperation with Hanshin Electric Railway to revitalize areas along the Hanshin railway lines.

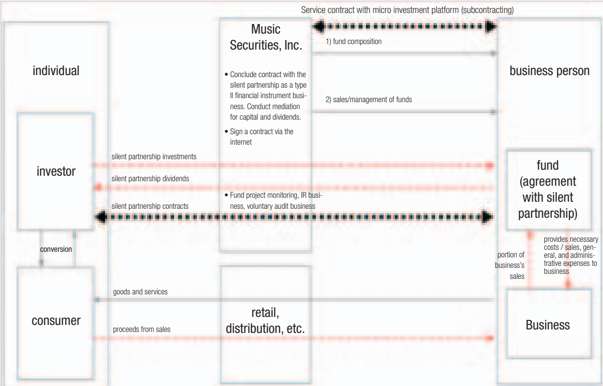
Figure 5-3-2. Music Securities, Inc.'s homepage

2. Allowing investors to choose the businesses they want to support, and support them directly

Investors can choose the business they want to support from various funds found on Music Securities, Inc.'s homepage (http://www.securite.jp/). After verifying instructions on silent partnerships and the contract, investors can directly sign a contract with said business. The business can allocate capital provided by silent partnerships to initial costs, and selling, general and administrative expenses of specific businesses. The investor has the right to receive a portion of sales of specific businesses, and if sales exceed the targeted amount, the investor has the right to receive a portion larger than the amount they invested. However, there are cases where sales are less than the targeted amount, resulting in returns to the investor being less than the amount invested. Depending on the fund, there are instances when goods in stock are allocated to the investor. It is important to note that these funds are different from regular venture capital because shares are not allotted to investors, allowing independent management to be protected.

Also, because the investor can continue relations with businesses through investments for up to 10 years, it is not uncommon for a great number of individual investors to convert to customers ("fans") of the businesses they have invested in. This is another distinguishing characteristic of micro investment funds.

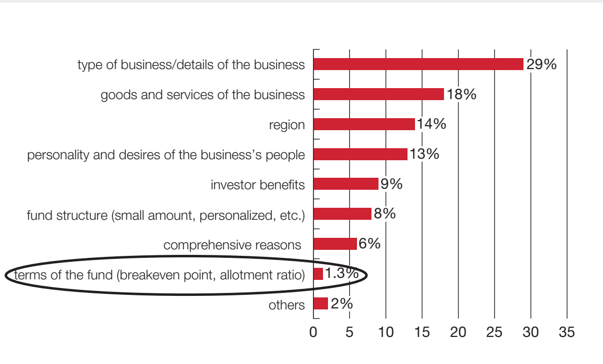
Figure 5-3-3.



3. Empathizing with the business and investing

According to a survey taken of investors, almost 60% said that they empathized with some aspect of the business they invested in such as the type of business, what the business does, its products and services, and the personality and desires of the people running the business. Almost no investors (1.3%) invested because of the appeal of the terms of the fund.

Figure 5-3-4.



*valid responses 9,812

4. Progressing policies and financial institutions, cooperation with Chamber of Commerce and Industry

In November 2011, the Financial Services Agency clarified the use of the Financial Inspection Manual relating to asset-based loans. Because of this clarification, money raised by the Music Securities disaster relief fund can now be considered an asset-based loan. Therefore, when a financial institution provides a loan, that capital can be viewed as an asset, not borrowings, making it easier for financial institutions to provide loans. Also, the Japan Revitalization Strategy presented in June 2013 mentions crowdfunding, explaining it as "a system to raise funds via Internet sites by linking new/growing companies with a lot of investors who invest a small amount of money." Progress such as this indicates that interest in micro investment is on the rise.

Under these circumstances, Music Securities, Inc., the government, regional financial institutions across Japan, and the Chamber of Commerce and Industry are advancing their cooperation with each other, and aiming to further develop funds.

4. Environmentally Friendly Real Estate

The environmentally friendly real estate market, referred to as green building, or sustainable building overseas, has been developing steadily since the mid-2000s, with a focus on large-scale construction of new buildings fully loaded with state of the art environmental engineering and facilities. This market is widening the scope of the environmental performance of existing buildings, and is accelerating the pace of expansion.[1] This market is a leading force in expanding the range of environmental branding and CSR efforts of major corporations that develop global businesses, and efforts to establish rules to improve productivity. It also is accelerating the flow of cooperation with investors. Behind this background, a multitude of research is progressing on the advantages of the energy and environmental efficiency of green buildings that has been implemented so far. Although there is still statistical uncertainty in quantitative evaluation, skeptical views toward "green premium" (economic superiority achieved by going green) are less common than before. Actually, efforts to improve environmental performance are catching on among investors in order to avoid the risk of falling below investment grade due to the "brown discount" (estimated loss of market value due to not being equipped with green building performance).

In regards to evaluation, the interest of the market is shifting toward "area development" evaluation, which comprehensively covers the community and infrastructure that support the aggregation of architecture. An addition has been made in 2010 to the internationally popularized LEED environmental performance evaluation system LEED ND (neighborhood development), which evaluates area development. Until now, this was mainly used as guiding principles for constructing new cities in emerging nations such as China. Recently, however, consideration has begun about adopting this system for the redevelopment of cities in

Japan. The motive behind considering adopting not only the Japanese evaluations system CASBEE, but also LEED, comes from the perspective of development. With intercity competition becoming more and more severe, there is a desire to convey the value of an area globally. LEED ND comprehensively evaluates the hard and soft aspects of community revitalization, such as walkability, overcoming the reliance on automobiles for transportation; circulation planning that focuses on public transportation, pedestrians, and cyclists; ecosystem conservation; regional agriculture promotion; and the proximity of a person's workplace to their home. Much like "smart cities," which are talked widely about in Japan, LEED ND does not place emphasis solely on energy.

The theme for the future in Japan, under a reduced budget, will be focused on the cooperation of private businesses to decide how to maintain and operate existing buildings, while converting them to be more sustainable. Since the end of the war, Japan has continued to build infrastructure such as buildings, roads, bridges, dams, and tunnels. However Japan has also built public buildings that have lost touch with social needs. From this, a choice will have to be made on what infrastructure to keep and what not to keep. While spending the entire public budget would cause distress, once we look at the success or failure of green building for civilians and citizens as more than a regulatory risk factor, new business opportunities will arise. In June 2011, a revision to the PFI law was made and a right was given to private enterprises to operate public facilities. In Japan as well, due to the independent discretion of private businesses, financially independent companies based on PFI are making a full-scale start. Looking at the stance of global banks toward urban development in China, it is expected that creation of green (sustainable) infrastructure standards will be a mandatory requirement. In addition, with the tightening of global environmental regulations, sustainability will be included as a factor for major investors in deciding where to allot operating funds. The expansion of the Global Real Estate Sustainability Benchmark (GRESB) from overseas pension funds is something that supports this expectation. It is worth mentioning that in a GRESB survey, encouraging cooperation with the community was included as an evaluation item of managing owned property.

Within the shift from new building to existing building stock, and the shift from stand-alone buildings to sustainability evaluation that targets a wide area, green building is going beyond borders between industry, government, and academia, and becoming a key word in the creation of a new market. The role that financial institutions play in making the growth of this market sustainable is not a small one. According to recent newspaper reports, the GPIF (Government Pension Investment Fund) and some upper-level financial institutions are beginning to consider investing in overseas infrastructure funds. After accomplishments accumulate in overseas infrastructure funds, the domestic infrastructure fund market is expected to expand. When that happens, some anticipated functions of financial institutions include giving advice from a financial perspective on formulating a master plan for urban restoration and revitalization, providing a necessary financial scheme for redevelopment, and acting as a bridge between local governments and citizens. In redevelopment from a community design perspective that includes ensuring the safety of elderly pedestrians, and making plans to revitalize shopping districts, as well as the area management that follows, the entire financial sector, including regional banks and financial institutions, will play an important role in a wide range of areas. I have high hopes for their commitment moving forward.

1 As of May 2013, 205 properties have received the CASBEE certification verified by an independent organization, covering a total floor space of 9.14 million square meters. Taking advantage of the median price per square meter of ¥1.1 million for environmentally friendly buildings (from ¥1-1.2 million, according to the 2013 summer special of Nikkei Architecture), the estimated market size of environmentally friendly real estate is ¥3 trillion. In Japan, the total number of properties that have received or are applying for LEED registration is 90, covering a total floor space of 1.68 million square meters. Taking advantage of the median price stated above, the estimated market size is ¥560 billion. Globally, the total number of properties that have received or are applying for LEED registration is 50,596, covering a total floor space of 882 million square meters.

Author Biographies

Chapter 1. Individual Investors and SRI

1. Investment Trusts

Masaru Otake

Mr. Otake is a committee member of the JSIF and works concurrently at a financial information provider. He graduated from Hosei University's Faculty of Social Sciences in 2007, and in 2009 he completed the first stage of the Ph.D. program at the Graduate School of Global Environmental Studies of Sophia University, receiving a master's degree in environmental studies. His fields of research included environmental finance and SRI.

2. Bonds

Sayaka Ikegami

Ms. Ikegami works at Daiwa Securities Group Inc. and has worked in the bond sales division, recruiting team, and sales department.

Chapter 2. Institutional Investors and SRI

1. Owners of Workers' Capital and Responsible Investment

Koji Terunuma

Mr. Terunuma joined the National Federation of Workers and Consumers Insurance Cooperatives in 1996, and served as general secretary. As of October 2012, he is serving as head of the policy department and life and wellness department at the Japanese Trade Union Confederation.

2. Examples of Responsible Investment by Owners of Workers' Capital

Hisayuki Mori

Mr. Mori is the labor union information system bureau director, the economic and social policy bureau director, and executive office assistant director at the Federation of Non-Life Insurance Workers' Union of Japan. In September 2010, he served on the central executive committee of the Japan Asia Development Labor Union, and in September 2011, he became vice-chairman of the committee. That experience led him to his current position, where he has been working since September 2013.

(Column) Using Information Providers to Implement Responsible Investment

Minako Takaba

Ms. Takaba is a senior analyst at MSCI Inc. in their ESG department. In 2002, she graduated from Yokohama National University's International Graduate School of Social Science, majoring in accounting management systems. She was a consultant at KPMG AZSA Sustainability Co., Ltd., after which she became a CSR manager at Vodafone Japan/Soft Bank Mobile. That experience led her to RiskMetrics Group (currently MSCI Inc.) in 2007, where she was engaged in conducting ESG research. Currently, she serves as a consumer industry analyst, and she mainly supervises research on Japanese shares across all industries.

Chapter 3. Shareholder Advocacy

Minako Takaba

(see above)

Akemi Yamazaki

Ms. Yamazaki serves as a committee member of the JSIF. In 1981, she graduated from Hitotsubashi University's Faculty of Law. After working some time at a major Japanese securities firm, she joined a think tank. There she engaged in SR/IR consulting work and research and study of corporate governance and ESG. She has co-written many books, reports, and articles about the stewardship code, corporate governance, proxy voting, and SRI/CSR/ESG.

Chapter 4. Integrated Reporting and Japan

Hiroko Ozawa

Ms. Ozawa serves as a relationship manager for the International Integrated Reporting Council (IIRC). She also works as a certified public accountant in the state of Illinois (U.S.A.). After gaining experience acting as an advisory for corporate acquisition and business restructuring at the Corporate Auditor Consulting Forum, she joined Ernst & Young ShinNihon LLC, where she mainly engages in CSR-related consulting. She has also completed graduate school at the University of Leeds (UK), majoring in environment and business.

(Column) G4 Sustainability Reporting Guidelines

Hiroki Uchida

Mr. Uchida serves as a senior researcher of the sustainability consulting group at Cre-en Incorporated. He is also a committee member of the JSIF. After his experience at a financial think tank, he joined Cre-en Incorporated, where he engages in CSR-related consulting for corporations and investigative research. He also engages in CSR vision formulation, CSR and environmental target decisions, independent CSR indicator development, and CSR report evaluation. He is also a member of an academic society for economic environment and policy. He has completed graduate school at Keio University, graduating with a master's degree in economics.

Chapter 5. Sustainable Finance

1. Principles for Financial Action toward a Sustainable Society

Tsukasa Kanai

Mr. Kanai serves as the senior manager of the management planning department and on the board of directors at Sumitomo Mitsui Trust and Banking Co. Upon graduating from Osaka University's School of Law in 1983, he jointed Sumitomo Trust and Banking Co. and was transferred to the London office after a few years. After working in the Pension Investment Department, Mr. Kanai was appointed to the Head Office as Executive of Corporate Social Responsibility Office in the Corporate Planning Department in 2005. In 2012 he became the senior manager of the Management Planning Department and oversaw CSR promotion at Sumitomo Mitsui Trust and Banking Co. He has managed all elements of the Sumitomo Mitsui Trust Group's CSR activities, including ESG investing. He is a member of a committee for addressing the Principles for Financial Action toward a Sustainable Society, and the steering committee of the Multi-stakeholder Forum on Social Responsibility for a Sustainable Future. He has co-written major works including *CSR Management and SRI*, *All About Strategic Pension Management*, *CSR Financing Guide*, and *SRI and New Business and Finance*.

2. The Growth of Community Investing
3. Crowdfunding

Shunji Taga

Mr. Taga currently serves as an executive director and a small and medium enterprise management consultant at the Japan NPO-BANK Network. He was born in Hiroshima in 1965. He was engaged in the 1994 establishment of Mirai Bank, which is known as the first NPO bank in Japan. Further, he has been a participant in the A Seed Japan Eco Savings Project since 2003. In fall 2004, he realized that the revision to the Financial Instruments and Exchange Act of Japan threatened the existence of NPO banks in Japan. Seeking to save these NPO banks, he organized forums and helped bring about the evolution of the current Japan NPO-BANK Network. Since then, Mr. Taga has continued to strive daily to further advance the development of NPO banks and social finance throughout Japan.

(Column) New financing that collects small investments from "fans" to support aspiring businesses

Wataru Kamiya

Mr. Kamiya graduated from the International Christian University's College of Liberal Arts. He has also completed a political science graduate course at Waseda University. In 2009, he joined Music Securities Inc., as a member of the securitization department. He manages, sells, and composes funds for private investors and businesses across Japan that utilize the "Security" micro investment platform.

4. Environmentally Friendly Real Estate

Hiroki Hiramatsu

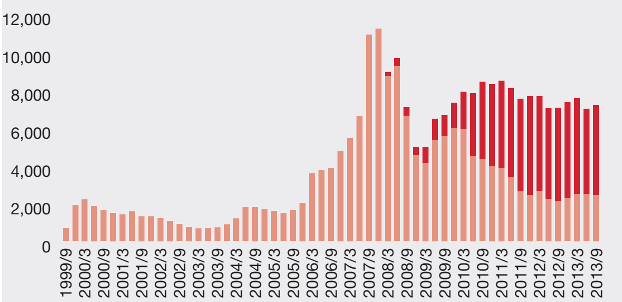
Mr. Hiramatsu is CEO of CSR Design & Landscape. He graduated from Osaka University of Foreign Studies (currently Osaka University's School of Foreign Studies). He is a member of the US Green Building Council LEED Faculty and also is a LEED-certified instructor. In addition, he is a LEED AP BD+C evaluator. Previously having worked at Japanese and U.S. securities companies, in 2002, Mr. Hiramatsu found himself positioned as a managing director at Merrill Lynch working with bonds, which he later left to enter into the world of landscape design and green buildings. In 2006, he founded CSR Design & Landscape, and has remained at this position since. He is a committee member of JSIF, and is also a member of the CASBEE and Real Estate Evaluation Committee.

Appendix

Appendix 1: Trends in the SRI Market in Japan

SRI investment trust data is displayed in accordance with JSIF's SRI Standard which are explained in Appendix 2, and is totalized each quarter.

* The number of funds and bonds, as well as the most recent data, is available on the JSIF homepage.



Appendix 2: JSIF's SRI Standard

In preparing this review, the JSIF used the following definition of Broad-SRI and classified investment funds that met these standards as SRI investment trusts.

Definition of Broad-SRI

Broad-SRI is defined as having the following characteristics:

(1) Investment (based on a broad definition*1) in which the intent of the final provider of funds*2 can be confirmed

(2) Investment in which at least one ESG factor is considered during the investing decision-making process

*1. Broad definition including traditional investment in marketable securities (stock, bonds, investment trusts, etc.) as well as financing that, while taking the form of financing or loans, can be considered in principle as a form of investment from the perspective of the provider of funds (financing construction of public-use windmill, community investment, etc.)

*2. Includes pensions, etc.

Diagram

	First characteristic	
	Intent can be confirmed	
Second characteristic	Marketable securities (stocks, bonds, etc.)	Other, direct investment
Consideration of ESG when selecting	Eco funds, SRI investment funds, etc.	Investment in green buildings, etc.
Targets improvement of ESG issues	Exercising of rights, engagement, impact investment, etc.	Community investment, etc.
Does not consider ESG in investment decision-making process	Financial products, which includes donations, etc. (Excluded)	(Excluded)

Appendix 3: The Second SRI Report Contest Sponsored by JSIF and Kinzai Corporation

Encouragement Prize: Ayumi Fukuhara, Miho Koda, Eri Kubo, Tomoki Kuriyama (Soka University, Faculty of Business Administration)
"Change! Investing Your Change to Change Yourself, and for the Local Community"

Report Summary

When Japan entered its period of rapid economic growth, the population began to move from rural to urban areas. This advanced the centralization of power in urban areas, where people and resources were highly concentrated. As a result, rural areas began to degenerate and efforts to revitalize them also declined, creating a large gap between rural and urban areas. Since the economic slump that followed the bubble period, the government has been engaged in various measures to spur economic improvement, such as implementing polices and laws to stimulate the economic self-reliance of rural communities. During this time of decentralizing power from central governments to local governments, now more than ever, there is concern for local communities to become independent. In order to revitalize local economies, there is a need to stimulate the mobility of people, goods, and money.

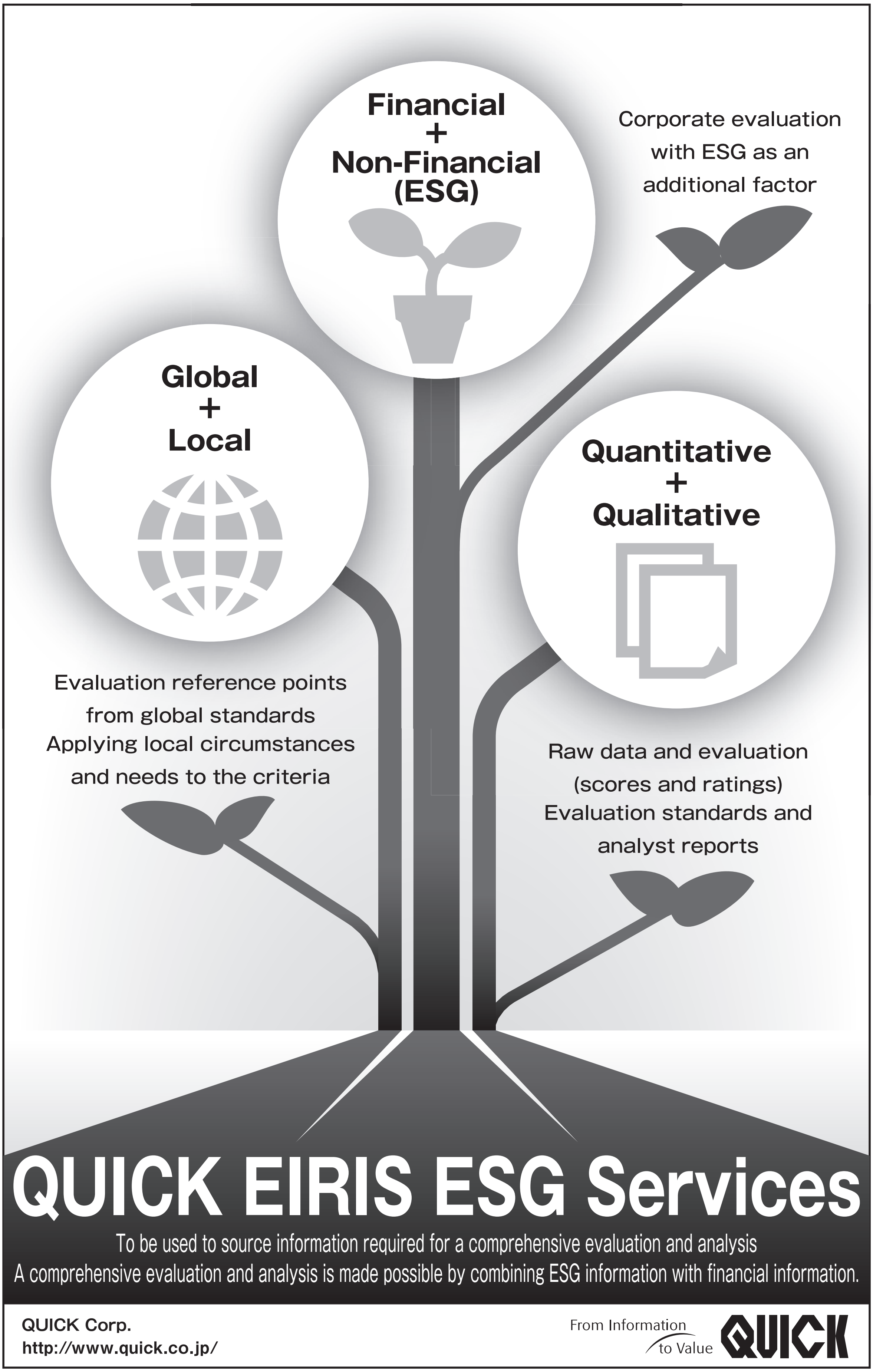
In recent years, there has been a creation of "community businesses" that aim to create a better community for residents who strive to revitalize their local area. One general idea when it comes to creating a better community is "local currency," which promotes businesses that stimulate the local community. "Local currency" aims to revitalize the community through stimulating the mobility of the local economy and instilling a sense of mutual aid among community residents. However, the actual level of familiarity with "local currency" is low, and so is the mobility of local economies. In actuality, residents need to participate independently in community development in order to revitalize the local economy.

Therefore, we propose "investing your change" as a community investment, which is a form of SRI. "Investing your change" involves using a special card issued by banks to purchase goods and services. The change created by these purchases is then put to use as an investment. The money collected from these investments is appropriately handled by a specialist entrusted by local banks, and it is used in a variety of ways, such as in building facilities that contribute to local revitalization. As a return from these investments, local residents—who are the investors—can receive local specialty goods and products that capitalize on local traditions. Also, through information mediums such as local newspapers and websites, residents can find out how the money was invested and the results of those investments. In doing so, we believe that residents, who have to date not been proactive in community investing, will have a raised awareness toward investing. In addition, by establishing an "opinion box" to gather residents' opinions, it will be possible to achieve urban development based on resident participation.

In Japan, this new system of "investing your change" allows anyone to invest in small amounts. Therefore, residents can participate independently, and investments can continue over a long course of time. Also, through the various opportunities made possible by this system, the mobility of people, goods, and money will be enhanced, and communities will gain the power to become self-reliant. As a result, the quality of the community will be raised, and the community will create new employment and prevent an outflow of young people. This in turn will lead to the further development of the community. We hope that our proposal will be the beginning for a solution to social problems affecting modern Japan, such as a decreasing birthrate and an aging population.

Judges:
· Masaru Arai, Chairman of Panel (JSIF Chair)
· Megumi Suto (Professor, Graduate School of Finance, Accounting & Law, Waseda University; JSIF Director)
· Tsukasa Kanai (Head Office Executive, Corporate Social Responsibility Office, Corporate Planning Department, Sumitomo Mitsui Trust and Banking Co.)
· Takeshi Mizuguchi (Professor, Takasaki City University of Economics; JSIF Representative Director)
· Mariko Kawaguchi (Chief Researcher, ESG Research Department, Daiwa Institute of Research Ltd.; JSIF Representative Director & Secretary General)

Special Contributions:
· Kinzai Corporation
· Daiwa Securities Group Inc.
Contributions:
· Edge International, Inc.
· KPMG AZSA Sustainability Co., Ltd.


Financial
+
Non-Financial
(ESG)
Corporate evaluation
with ESG as an
additional factor
Global
+
Local
Quantitative
+
Qualitative
Evaluation reference points
from global standards
Applying local circumstances
and needs to the criteria
Raw data and evaluation
(scores and ratings)
Evaluation standards and
analyst reports
QUICK EIRIS ESG Services
To be used to source information required for a comprehensive evaluation and analysis
A comprehensive evaluation and analysis is made possible by combining ESG information with financial information.
QUICK Corp.
http://www.quick.co.jp/
From Information
to Value
QUICK

2013 Review of Socially Responsible Investment in Japan
Published: March 31, 2014

Publisher: Japan Sustainable Investment Forum

Publishing Office: Japan Sustainable Investment Forum Executive Office
Shirokanedai Bld. 5th Floor, 19-6, Shirokanedai 3-chome,
Minato-ku, Tokyo 108-0071, Japan
URL: http://www.jsif.jp.net/

Distribution Price: ¥2,500 (including tax)

Yearbook

Editing, editorial design, and English-language translation services provided by Edge International, Inc.

Special sponsor: QUICK Corp.

General sponsors: Daiwa Securities Group Inc., Ernst & Young ShinNihon LLC, Development Bank of Japan

Assistance provided by the Trust Sixty Foundation.

Report Contest

Joint sponsorship and special support provided by Kinzai Corporation

Special sponsor: Daiwa Securities Group Inc.

General sponsors: Edge International, Inc., KPMG AZSA Sustainability Co., Ltd.