日本SRI年報 2011

Review of Socially Responsible Investment in Japan

NPO法人 社会的責任投資フォーラム編

SOCIAL INVESTMENT FORUM JAPAN

EDGE International

CONTENTS

Forward

Social Investment Forum Japan (SIF-Japan) is very pleased to present you with 2011 Review of Socially Responsible Investment in Japan, the third edition in this series of reports. In 2011, Japan's capital markets faced an extremely harsh operating environment characterized by the culmination of a variety of factors, including the Great East Japan Earthquake, which occurred on March 11, 2011, as well as the following financial crises in Europe; the incredibly high level of yen appreciation; and the rising presence of companies from China, Korea, and other emerging nations. This particular difficult operating environment sunk the Japanese stock market into a period of stagnation.

Regardless of this negative trend, we also saw a rising number of positive developments in the socially responsible investment (SRI) market of Japan. Of the developments, the December 2010 release the *Guidelines on Responsible Investment of Workers' Capital* by the Japanese Trade Union Confederation (RENGO) is expected to be the most influential to the SRI market. These guidelines encourage management of workers' capital, including pension funds, which are half funded by workers, and Labour Banks (Rokin), to be conducted in a responsible manner. Specifically, the guidelines recommend that capital management be regulated by proper governance that takes into account the perspective of workers and conducted while considering both performance and environmental, social, and governance (ESG) factors. We believe this development has the potential to erode preconceptions related to pension funds in Japan and change the way they are managed.

Another development was the launch of the Principles for Financial Action towards a Sustainable Society (Principles for Financial Action for the 21st Century). Signatory applications from financial institutions that support these principles, which affect all financial institutions in Japan, began being accepted in November 2011. Two months later, in early January 2012, the number of signatory institutions exceeded 110, and included megabanks, regional banks, fund management companies, insurance companies, and other organizations. With banks representing a particularly large portion of signatories, we anticipate that initiatives concerning environmental and social will be widely enacted throughout Japan not only in relation to investment but also to financing and banking and that society will also come to expect financial institutions to implement such initiatives in the future.

These movements will most likely lead to the reevaluation of the function of financial systems in Japanese society and the link between the two. The movements should also serve as a driver in endorsing the indispensable role of investors, depositors, and insurance policy holders in society as part of the financial system.

In the meantime, the scope of investments classifiable as SRI has been expanding. In the past, the term SRI has primarily been used to refer to investment trusts that deal mainly with equities. Recently, however, impact investment bonds, which made an appearance in 2008, have rapidly been becoming a highly popular form of SRI for individual investors. We have also seen the establishment of a number of SRI investment trusts whose portfolios do not consist of the listed stocks or bonds, such as microfinance trusts. Moreover, in this report, we included a new chapter detailing the trend of environmentally friendly real estate investment (Green building), which entails investing in environmentally friendly buildings. In addition, there have been new trends in the field of community investment. This type of investment has traditionally been conducted mostly by NPO banks. In the past couple of years though, there has been a subtle increase in investing in this area that takes into account the perspective of average citizens. Proponents of this trend include citizen-operated funds (citizen's funds) that invest in renewable energy and small-scale Internet-based investment schemes. We believe this trend may be the result of a departure from the values of economical rationality toward the adoption of more humanitarian altruistic beliefs. Symbolic of this departure was the large amounts of donations collected and time volunteered following the Great East Japan Earthquake. It is our hope that these changes in perception will lead to the development of a society in which SRI is not seen only as a means of turning a profit or as a responsibility. In this society, people will likely come to recognize the value of investment that provides them with appropriate returns while also benefiting society.

We believe that this report will make a small but definite contribution to leading post-earthquake Japan in a positive direction. For this reason, it is the desire of the members of SIF-Japan that this report come to be used in a variety of situations.

This report was constructed thanks to the support of Development Bank of Japan Inc., Sompo Japan Insurance Inc., and FTSE Group. Also, the English-language version of this report would not have been possible without the translation services provided free of charge by EDGE INTERNATIONAL, INC. In 2011, one of the new initiatives we undertook was the holding of the SRI Report Contest. A summary of the report by runner-up winner Ayako Hatano, on the need for legal revisions to support the activities for NPO banks, was included at the end of this report. We were grateful to receive special contributions from Kinzai, Inc., Daiwa Securities Group Inc., and Seven & i Holdings Co., Ltd., as well as other contributions from KPMG AZSA Sustainability Co., Ltd., and the Trust Sixty Foundation, allowing us to hold this contest. Furthermore, the activities of SIF-Japan continue to be supported by its six premium members—Cre-en Inc., Sumitomo Trust & Banking Co., Ltd., Integrex Inc., Co., Ltd., Sumitomo Mitsui Banking Corporation, Nikko Asset Management Co., Ltd., and Nissay Asset Management Corporation—as well as its six other corporate members, four financial institution members, seven public agency members, and 92 individual members, who could not be listed separately due to space restrictions. We would like to express our appreciation to all of our members for their continued support.

We would like to express our utmost appreciation for your support thus far and to ask for your continued encouragement and cooperation as we work to advance the development of the SRI market in Japan, which has just recently began showing significant progression.

January 2012

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Chapter 1. Trends in Retail SRI Financial Products

1. Publicly Offered SRI Investment Trusts

Published in January 2010, the previous edition of this report, 2009 Review of Social Responsible Investment in Japan, described SRI trends in Japan in the period from August 1999, when Japan's first SRI investment trust was established, to September 30, 2009. This chapter focuses on trends in the two-year period from October 1, 2009 to September 30, 2011. Figures and tables, for the most part, contain data dating back to 1999, when Japan's first SRI investment trust was established. While some of the information contained within this report is also covered in the previous edition, we felt that it would be best to explain Japan's SRI investment trusts, which only go back just over a decade, together with the medium- to long-term trends seen thus far.

(1) Newly Established Funds

(a) Establishment of Environmental Funds Specializing in Particular Regions or Themes (2009-2010)

In 2009, seven new SRI investment trusts were established in Japan with another eight trusts being established in 2010. This is less than one-third the number of trusts established in 2007, when a record-setting 27 trusts were established. While this decline may be influenced by the instability of the global market brought about by the September 2008 financial crisis, this number is still quite small when compared with the number of open-type stock investment trusts established annually (457 in 2009, 439 in 2010).

The majority of these trust funds use environmental criteria for screening processes (figure 1-1-1). In particular, three of the funds established between October 2009 and March 2010 invest in environment-related companies in China and other parts of Asia. We believe that this represents an attempt to improve profitability through in investment in the environmental sector, which is vital to sustainable economic growth even in China and other parts of Asia experiencing rapid growth. Last time funds that invest in Chinese and Asian environment-related companies appeared was in June 2008.

In April 2010, a fund that focuses investment on the railway and next-generation automobile companies of the environmental sector was established. This fund aims to invest based on themes and in corporate groups that play a principle role in the realization of a green economy. Later, in June 2010, a fund that invests in green bonds was established. Then, August 2010 saw the establishment of a fund that invests in Japanese companies addressing biodiversity issues and working to protect ecosystems. There have previously been funds that invested in water companies and clean technology companies, and we have recently seen the establishment of several new funds that specialize in certain regions or themes.

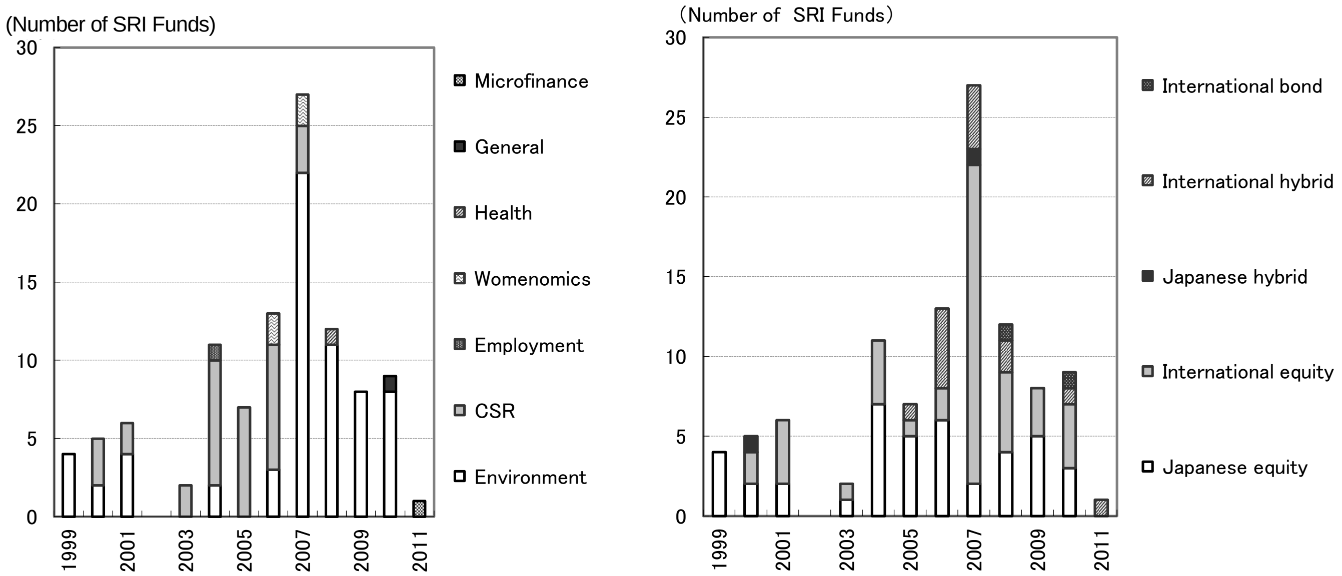
(b) Appearance of First Japanese Funds to Invest in Microfinance (2011)

In February 2011, the first publicly offered investment fund in Japan, which primarily focuses investments on microfinance institutions (MFIs), was established. Through direct financing and other methods, this fund offers capital support to MFIs that work to resolve poverty issues around the world.

The fund's investment policies call for between 25% and 50% of its capital to be invested in MFIs through either direct financing (loans) or purchasing bonds issued by MFIs, and over 50% of its capital to be invested in the bonds of international organizations that actively develop infrastructure to improve the operating environment for MFIs. In concrete terms, this fund takes the form of a "fund of funds" that invests in the foreign securities managed by asset management companies that specialize in microfinance.

The only SRI investment trust established in Japan in 2011 was this microfinance specialized fund. In recent years, the number of new funds has been declining. However, at the same time, we have seen an increase in the number of dealers handling existing SRI investment trusts (table 1-1-1).

Figure 1-1-1. Publicly Offered SRI Investment Trusts: Launch of New Funds (August 1999 through September 2011)



* Womenomics: A term that is combination of "women" and "economics." It relates to companies that feature strong career potential for women and other women-friendly themes.

Source: Prepared by authors based on SIF-Japan's materials

Table 1-1-1. Dealers that Began Handling Existing SRI Investment Trusts

	2009		2010		2011 (before September 31)	
	Securities companies	Banks, etc.	Securities companies	Banks, etc.	Securities companies	Banks, etc.
Companies	18	11	17	17	8	5
Aggregate funds	31	16	55	19	11	5

Source: Prepared by authors using NRI-Fundmark/DL

(2) Fund Trends of Publicly Offered SRI Investment Trusts

(a) Changes in Net Assets—Net Assets Fell Below Post-2008 Financial Crisis Levels in 2010 due to European Government Finance Crisis

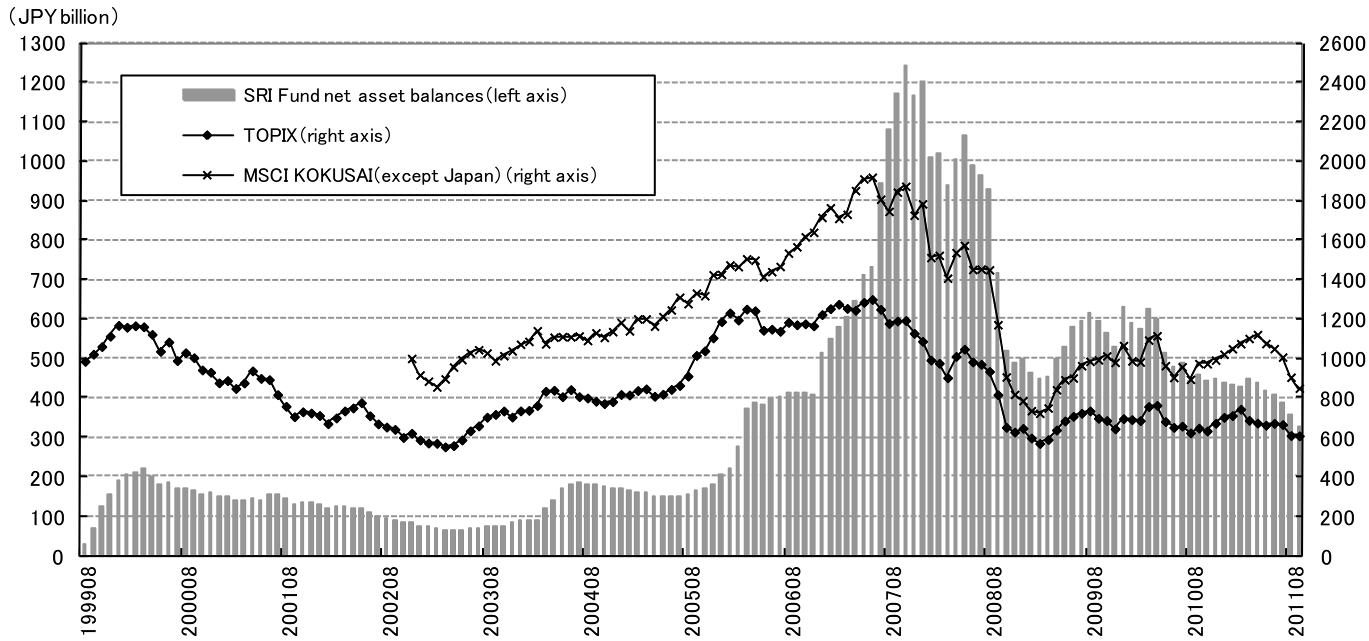
The combined total of the net assets for all publicly offered SRI investment trusts in Japan peaked in October 2007 at ¥1,243.9 billion (figure 1-1-2). However, this was followed by the subprime loan crisis of mid-2007, the financial crisis caused by the bankruptcy of Lehman Brothers in September 2008, and other global financial crises, which led stock markets to plummet around the world, driving down the net asset value per share of investment trusts. In February 2009, following the 2008 financial crisis, the total net assets of Japanese SRI investment trusts had fallen 64% from its 2007 peak to ¥447.7 billion. After the 2010 European government finance crisis, net assets dropped even further, and at the end of September 2011, the total had declined to ¥325.2 billion, 74% lower than when this number peaked.

For reference, total net assets of stock investment trusts peaked at the end of October 2007, reaching ¥69,068.1 billion. In January 2009, after the 2008 financial crisis, this number had fallen by 45% to ¥38,328.0 billion, but recovered to ¥47,342.2 billion by September 30, 2011, still 31% lower than peak levels.

While total assets of stock investment trusts have been recovering, SRI investment trusts continue to see declines. On September 30, 2011, the net assets of SRI investment trusts amounted to merely 0.7% of the net assets of stock investment trusts.

* Some numbers are different from those in the 2009 review due to subsequent additions to the scope of SRI investment funds.

Figure 1-1-2. Publicly Offered SRI Investment Trusts: Trends in Net Assets (August 1999 through September 2011)



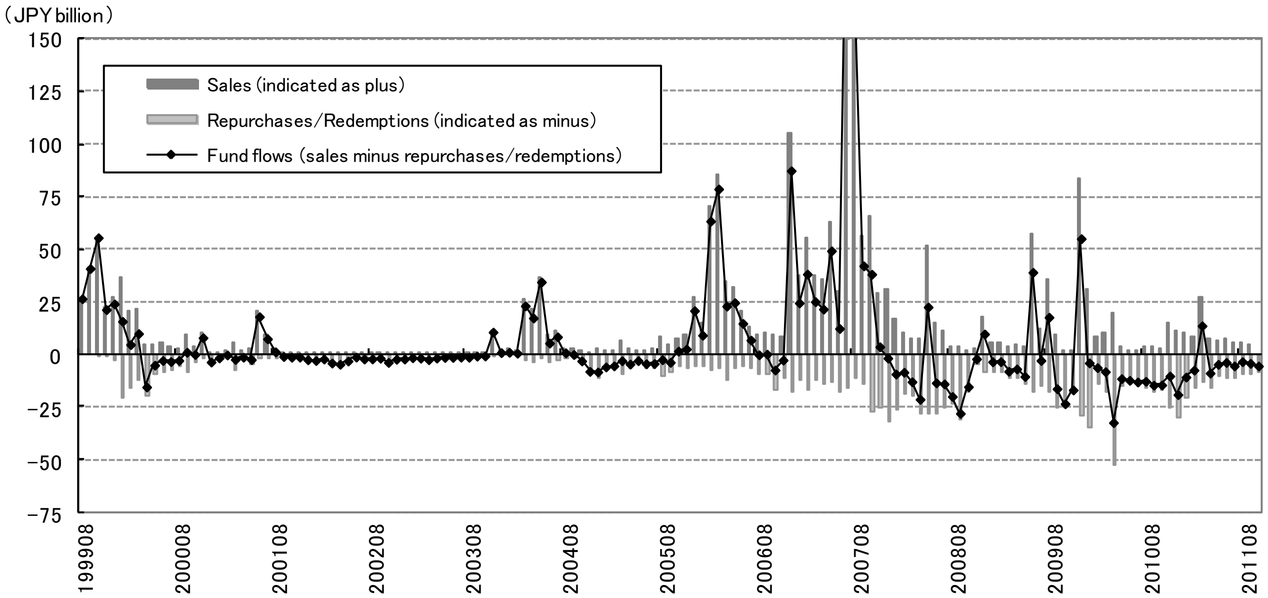
Source: Prepared by authors using NRI-Fundmark/DL

(b) Trends in Fund Flows—Outflow Trend has Continued Since 2008

Figure 1-1-3 graphs the fund inflows (sales) of SRI investment trusts as positives and the outflows (repurchase, redemption) as minuses negatives, with a line drawn to represent net fund flows.

Starting in 2008, the number of cases in which the amount of repurchase and redemption exceeded the amount of sales began to increase. There are months following this when sales exceeded the amount of repurchase and redemption, but this usually reflected the establishment of a new fund in that month. While the climate for investment has grown harsh both inside and outside of Japan, the outflow of funds from SRI investment trusts, which has been spurred forward by investors on a continual basis for roughly four years, is extreme. Open-type stock investment trusts, however, experienced a net inflow (sales minus the amount of repurchase and redemption) in the period from 2008 to September 30, 2011, of over ¥15,000.0 billion, whereas in the same period SRI investment trusts saw an outflow of ¥280.0 billion.

Figure 1-1-3. Publicly Offered SRI Investment Trusts: Sales and Repurchase Trends (August 1999 through September 2011)



(※) Figures exceed range of graph
(July 2007: Sales of ¥264.0 billion and net fund inflow of ¥247.5 billion;
August 2007: Sales of 182.1 billion and net fund inflow of ¥171.1 billion)

Source: Prepared by authors using NRI-Fundmark/DL

(c) Net Assets by Screening Standards and Fund Type—Investment Focuses on the Environment and Stocks

Table 1-1-2 categorizes SRI investment trusts by screening type and fund type, showing where among these types investment of funds is focused. In regard to screening types, approximately 75% of funds are focused on trusts that use environmental standards for screening. For fund types, international equity funds were No.1 at 44%, followed by Japanese equity funds. In this manner, approximately 70% of capital was invested in funds that invest in stock. Compared to two years ago, there was a noticeable rise in the percentage of international bond funds (16.3%), which invest in green bonds and other bonds, and funds that invest in microfinance (5.1%).

Table 1-1-2. Publicly Offered SRI Investment Trusts: Net Assets by Fund Type and Screening Standard (end of September 2011)

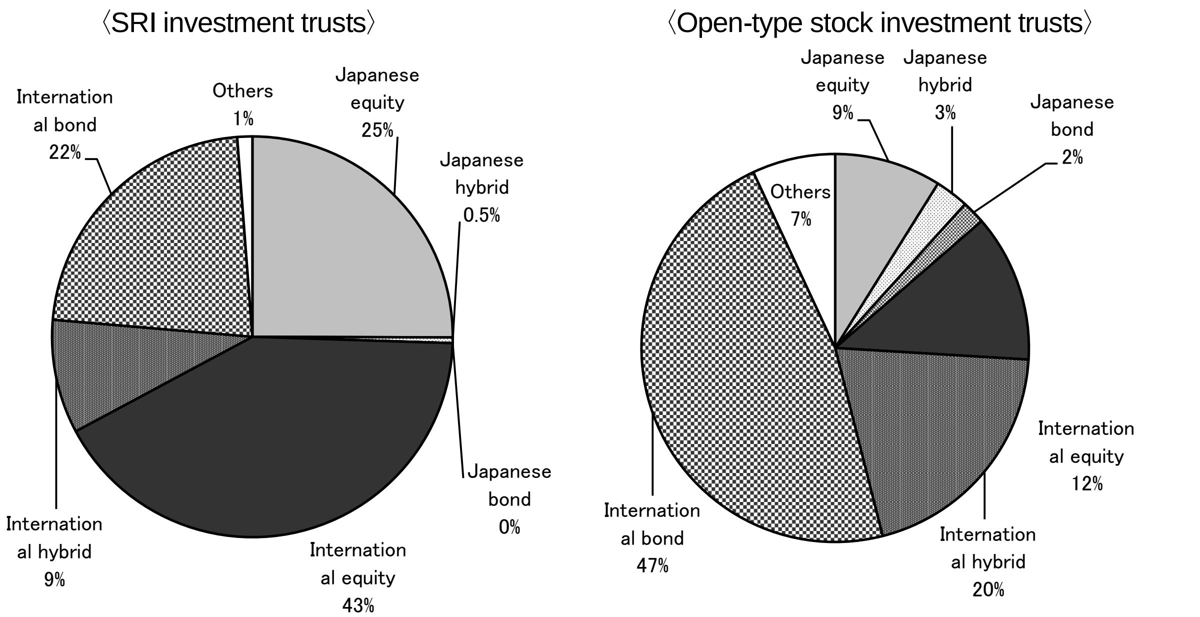
(JPY billion)

Screening standard	Fund type: Japanese equity	Japanese hybrid	International equity	International bond	International hybrid	Total	Ratio
Environment	389	8	528	531	48	1,504	46.3%
Environment (theme)	29	-	886	-	-	915	28.2%
CSR	350	-	15	-	230	596	18.3%
Employment	16	-	-	-	-	16	0.5%
Womenomics	43	6	-	-	6	56	1.7%
Health	0.4	-	-	-	-	0.4	0.0%
Microfinance	-	-	-	-	165	165	5.1%
Total	828	14	1,431	531	450	3,253	100.0%
Ratio	25.4%	0.4%	44.0%	16.3%	13.8%	100.0%	

* Environment (theme) includes water, green energy, railways, and automobiles

Source: Prepared by author based on SIF-Japan's materials

Figure 1-1-4. Publicly Offered SRI Investment Trusts: Ratio of Net Assets by Fund Type



Source: Prepared by authors using NRI-Fundmark/DL

Figure 1-1-4 shows the ratio of net assets by fund type for SRI investment trusts and open-type stock investment trusts.

A commonality between both of these trust types was the fact that funds investing in overseas assets (international equity, international bond, international hybrid) held shares of around 80% of total net assets. This fact illustrates the flow of investment capital out of Japan. Reasons behind this outflow include the extended stagnation of the Japanese stock market and the consistently low yen interest rates. However, the two types differed in the ratio of stock-investing funds, with these funds claiming

69.4% (domestic equity: 25.4%, international equity: 44.0%) of the total net assets of SRI investment trusts but only 26.2% (domestic equity: 14.4%, international equity: 11.8%) of the total net assets of open-type stock investment trusts. This difference can likely be attributed to the tendency for a large portion of the funds flowing into open-type stock investment trusts to be from sources that focus on the income (dividend acquisition). This in turn results in rise in the net assets of international bond and international hybrid type funds. The ratio between fund types is divided as shown in this manner. Currently, the number of SRI investment trusts is relatively low, and we therefore believe that there still remains room for future improvements of product lineups.

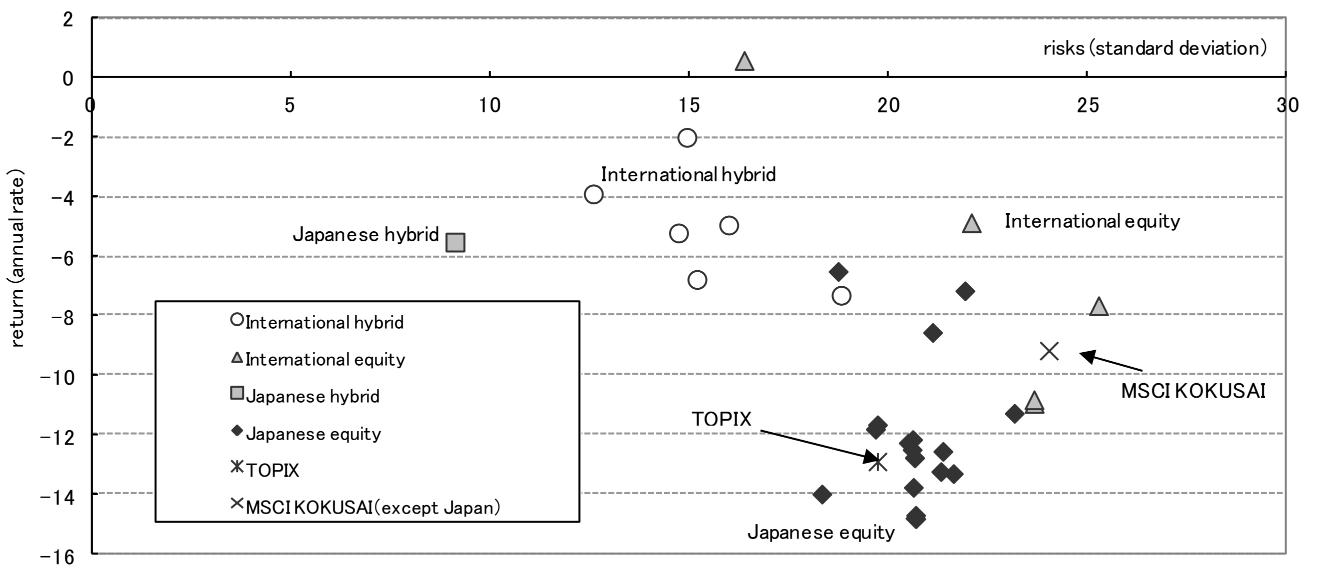
* Type divisions for open-type stock investment trusts were prepared by the authors based on the divisions used by the Investment Trusts Association, Japan.

(3) Performance of Publicly Offered SRI Investment Trusts

Figure 1-1-5 details the returns and risks associated with 32 funds that all have been managed for over five years. In the five-year period from October 2006 to September 2011, the investment environment has been harsh, and thus quite a few funds have showed large negative returns. Both risks and returns for domestic equity type funds are concentrated in the vicinity of the Tokyo Stock Exchange Stock Price Index (TOPIX). There is only one fund that generated positive returns in this period. This fund is an international equity type fund that hedges foreign exchange risks. Its ability to avoid the impacts of the exceptionally strong yen could be seen as a factor contributing to these positive returns. (The Japanese yen appreciated 35% against the US dollar from ¥117.90 to ¥76.65 30% and 30% against the euro from ¥149.77 to ¥104.11. MSCI KOKUSAI (excluding Japan, yen base) saw a 4.3% decrease in returns.)

It is difficult to properly evaluate the performance of Japanese SRI investment trusts due to the low number of funds and the short period that they have been under management. These SRI investment trusts are currently endeavoring to develop operational experience under harsh conditions characterized by the severe investment, declining net assets, and other factors.

Figure 1-1-5. Pubicly Offered SRI Investment Trusts: Risks and Returns (October 2006 to September 2011)



Source: Prepared by authors using NRI-Fundmark/DL

2. Impact Investment Bonds

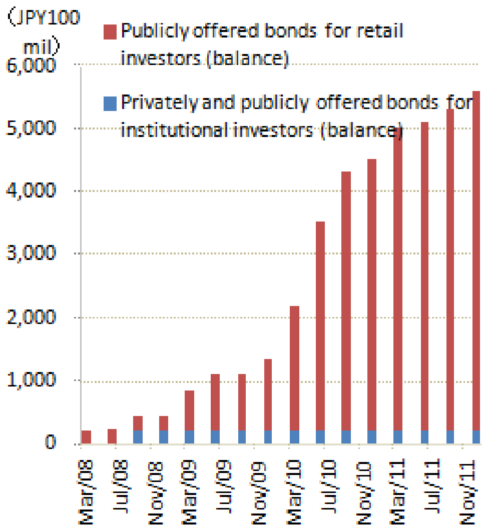
(1) Appearance of Impact Investment in Japan

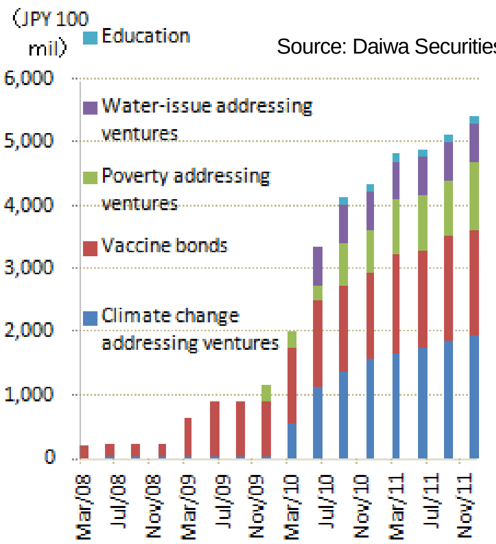
Since March 2008, issuance and sales of bonds based on social contribution themes has continued to progress in Japan, and on December 31, 2011, the total amount of sales of these bonds had reached ¥586.9 billion with the total amount of bonds issued being ¥565.9 billion (calculated based on exchange rate at time of issuance, totals have not been decreased to reflect sale 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, taking seven years and four months, but then fell back to ¥325.2 billion (as of September 31, 2011).

These bonds are characterized by the fact that they are issued and sold after a specific social contribution area, such as global warming addressing ventures or microfinance, 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 continued. Sales of the 38 different types of bonds sold up until December 2011 totaled approximately ¥540.0 billion. Looking at these bonds by social contribution areas, 22 bonds, sales of which amounted to ¥194.6 billion, were for climate change addressing ventures; 8 bonds, sales of which amounted, to ¥159.0 billion were Vaccine Bonds; 6 bonds, sales of which amounted to ¥115.8 billion, were for poverty addressing ventures (of which 3 were MFIs); 1 bond, sales of which amounted to ¥60.4 billion, was for water issues addressing ventures; and 1 bond, sales of which amounted to ¥11.8 billion, was for education-related ventures.

Impact investment bonds issued and sold targeting institutional investors were previously limited to the 31st FILP Agency Bond (JBIC Environmental Support Bond) launched in June 2008. However, starting in summer 2010, we saw a rapid increase in issuance and sales of bonds for specified institutional investors including regional banks. Within a few months, a total of 18 different types of these bonds were issued amounting to approximately ¥24.0 billion.

Figure 1-2-1. Investment Bond Balances by Investor (Left) and Balance by Fund Usage





Source: Daiwa Securities Co., Ltd.

Table 1-2-1. Bonds Issued for Specific Institutional Investors

Issue date	Issuer	Product	Currency	Term	Amount	investor
8/19/2010	African Development Bank	Education Bond	USD	5 year	$12mil	A public company
9/1/2010	World Bank	Green Bond	USD	5 year	$50mil	Iyo Bank
11/16/2010	World Bank	Green Bond	AUD	5 year	A$30mil	San-in Godo Bank
11/30/2010	World Bank	Green Bond	USD	5 year	$10mil	Iwate bank
12/21/2010	World Bank	Green Bond	USD	5 year	$10mil	Kiyo Bank
1/18/2011	World Bank	Green Bond	USD	10 year	$5mil	Kagawa Bank
1/20/2011	World Bank	Green Bond	USD	5 year	$10mil	Fukui Bank
1/20/2011	World Bank	Green Bond	USD	5 year	$10mil	Daishi Bank
1/25/2011	World Bank	Green Bond	USD	5.25 year	$30mil	Aichi Bank
1/25/2011	Asian Development Bank	Water Bond	USD	5 year	$30mil	Nishi-Nippon City Bank
2/17/2011	World Bank	Green Bond	USD	5 year	$30mil	San-in Godo Bank
2/18/2011	World Bank	Green Bond	USD	5 year	$10mil	Hokuyo Bank
2/24/2011	World Bank	Green Bond	USD	5 year	$20mil	Nanto Bank
3/17/2011	World Bank	Green Bond	USD	5 year	$10mil	Oita bank
4/14/2011	World Bank	Green Bond	USD	5 year	$10mil	Musashino Bank
6/14/2011	World Bank	Green Bond	USD	5 year	$10mil	Ogaki Kyoritsu Bank
6/30/2011	Asian Development Bank	Water Bond	USD	5 year	$10mil	Kagoshima Bank
10/5/2011	World Bank	Green Bond	AUD	10 year	A$10mil	Waseda University
2/7/2012	World Bank	Green Bond	USD	10 year	$ 10mil	Chiba Kogyo Bank

Source: Daiwa Securities Co., Ltd..

(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 (formerly known as the Global Alliance for Vaccines and Immunization), an organization that conducts health and vaccination programs in the world's 70 poorest countries. The IFFIm uses the funds procured through its vaccine bonds to accomplish this goal. Its primary source of funding is donations from countries such as the United Kingdom, France, Italy, Spain, the Netherlands, Sweden, Norway, and South Africa. As a result, the IFFIm's financial base consists largely of donations that bear legal restrictions under the laws of the United Kingdom and other countries. In response to this, the organization has obtained the highest level of sovereign donor rating from several major rating companies (Standard & Poor's (S&P) downgraded the IFFIm by one notch from AAA to AA+ in January 2012 in reflection of the impacts of the sovereignty crisis in Europe). In Japan, the organization gained sovereignty in accordance with the Financial Instruments and Exchange Act in 2007.

(b) International Institution and Government Financial Institution Bonds

Roughly half of 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. These bonds are generally classified into two types characterized by fund management method.

i. Ringfencing

The World Bank's Green Bonds and the European Investment Bank's Climate Awareness Bonds belong to this type. In Japan, the World Bank's Green Bonds are held in high regard by domestic institutional investors. Since September 2010, a total of ¥21.0 billion has been invested in these bonds by 13 regional banks and Waseda University.

ii. Best Effort Management

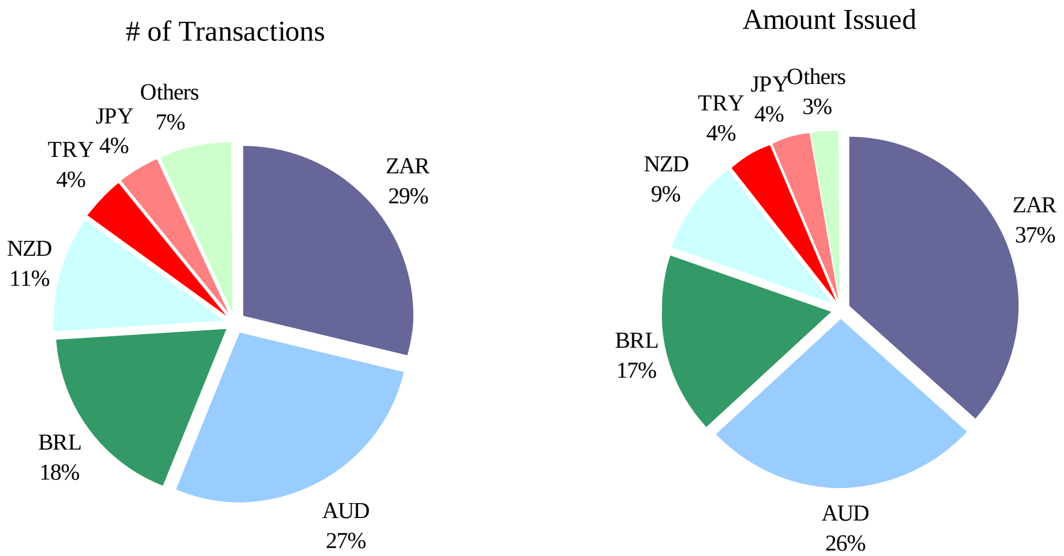
The Microfinance Bonds that began being sold in November 2009 by International Finance Corporate (IFC) were the first bonds available in Japan of this type. Since then, many bonds of this type have been established, including the Asian Development Bank's Water Bonds and the African Development Bank's Education Bonds.

Best effort management entails defining the manager's intention to make a best effort attempt to invest procured capital in ventures in specific fields in explanatory materials (prospectus). However, there is no legal enforcement of these statements and calculation of separate accounts is not included. As this type of bond does not necessarily require new operations, it spread quickly, becoming common place in Japan in less than a year.

(3) Reasons Behind Popularity of Impact Investment Bonds

One factor that is considered to contribute to the popularity of impact investment bonds in Japan, the market for which grew to the scale of ¥500.0 billion in only three years, 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 denominated, 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 89% of all bonds sold on a volume basis and 94% 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.

Figure1-2-3. Impact Investment Bonds (for Individual Investors) by Currency Denomination



Source: Daiwa Securities Co., Ltd.

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 accustom 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 from international institutions and focusing the usage of capital on specific issues.

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, thus leading to increased consideration for where their money is going. This growing call for investment around the world to target the resolution of social issues has given birth to the new concept of impact investment. Recognition of this 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. It is clear that these developments on the international stage have begun to seep into Japan.

(4) Projected Future Developments

Over the past three years, the market for impact investment bonds in Japan has shown stunning growth. However, there 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 all bonds issued on monetary value basis are denominated in either South African rands or Brazilian reals 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 developing countries must be carefully considered. Accordingly, it is important for securities companies dealing in these bonds to provide investors with clear explanations of these risks. One development worthy of attention would be the procurement of ¥20.0 billion by the Japan International Cooperation Agency (JICA) through the issuance of the first JICA Bond (Zaito Domestic Bond) targeting individual investors in December 2011. 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 education and religious institutions as well as foundations and associations, took advantage of these bonds, but very few institutional investors purchased these 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. Nevertheless, we could regard the *Guidelines on Responsible Investment of Workers' Capital* released by the Japanese Trade

Union Confederation (RENGO) as well as the rapid rise in investment in impact investment bonds by regional banks as positive signs indicating the advancement of the market.

Lastly, the fact that impact investment bonds all result in capital flowing outside of Japan is impeding the expansion of the market for these bonds. Japan is currently faced with a number of social issues at home, and there is strong demand for the development of framework for addressing these issues. The February 2011 establishment of the first publicly offered investment fund in Japan to primarily focus investments on MFIs, as explained 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.

While Japan has been lagging being Europe and North America 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 more comprehensive framework, including that pertaining to investment tax systems, to be established through government-industry coordination.

Chapter 2. Pension Funds and SRI

1. SRI in the Pension Fund Market

(1) Importance of the Pension Fund Market

The following excerpt from *Options to Improve the Governance and Investment of Japan's Government Pension Investment Fund*, released by the Organization for Economic Co-operation and Development (OECD) in December 2010, turned the heads of many people in positions relating to SRI.

"The investment policy should consider the fund's potential impact on the domestic economy and financial stability and it should integrate environmental, social and corporate governance (ESG) factors. The GPIF could become a signatory of the UN Principles of Responsible Investing."

The Government Pension Investment Fund (GPIF) is the world's largest pension fund, with total assets amounting to over ¥140.0 trillion. The excerpt was merely a proposal to the wide reaching GPIF, and did not necessarily directly encourage SRI. Nevertheless, this comment is considered to reflect the modern day role of pension funds, particular those in Europe.

In the 2011 *Corporate Pension Funds and Sustainable Investment Study* released by the European Sustainable Investment Forum (Eurosif), a large number of survey respondents expressed a belief that "ESG factors affect long-term performance of pension funds." This demonstrates that perception regarding SRI and pensions funds has begun to change, a phenomenon that is most likely attributable to OECD's comment directed toward the GPIF. This growing interest in the SRI trends relating to pension funds is not only due to the large amounts of assets and influence that these funds tend to possess. This is also due to the fact that pension funds are seen as among the most sophisticated of the investors in the fund management industry as well as the fact that the stance of these funds can influence the direction of markets.

Unfortunately, pension funds in Japan show low intention of advancing the SRI trend. There are also no government measures to encourage SRI in Japan, as there are in the United Kingdom. Following the rise to power by the Democratic Party of Japan, there was some discussion within the government regarding the appropriateness of stock investment in the management of the GPIF. However, as the idleness of these talks suggests, there is currently no consensus toward transforming capital markets (stock markets) to support the development of a sustainable society.

(2) SRI in the Japanese Pension Fund Market

SRI in the Japanese pension fund market is currently at a low level. Different from publicly offered trust funds, data regarding pension funds is not made available to public, thus making it difficult to accurately estimate the size of the market. A confirmable fact, however, is the low number of Japanese pension funds that are signatories to the United Nations' PRI: currently only three. This is a striking difference from overseas pension funds, which are racing to join this initiative.

In the Japanese pension fund market, SRI initiatives are primarily seen among corporate pension funds. While there are some public pension funds conducting SRI, the number of these funds is minuscule compared with the total number of public pension funds. The *Report on*

Socially Responsible Investment (SRI) in Pension Fund Management, which was constructed by Research Institute for Policies on Pension and Aging (RIPPA) in 2008 at the request of the Trust Sixty Foundation, is a useful tool in trying to understand this situation regarding pension funds in Japan. In preparing this report, RIPPA sent surveys to 1,432 corporate and public pension funds, and analyzed the responses that were received by 465 of these funds. The responses revealed that only 6.9% of the responding pension funds employed SRI principles and that over 60% of the funds had no intention to begin conducting SRI in the future. This paints a very clear picture of the stance of Japanese pension funds toward SRI.

When the 32 funds employing SRI principles were asked why they had made this decision, the most common response was that the fund agreed with these principles, with the second most common response being that the decision had been made based on the proposal of a Asset management company.

Of those funds that offered the second most common response, which accounted for 22.5% of respondents, some received proposals suggesting SRI as an extension of CSR activities, while the other 80% of funds were proposed SRI as a method of active management. As mentioned previously, there are currently no measures in Japan encouraging pension funds to conduct SRI, thus leaving asset management companies with only these two options for promoting SRI.

If SRI is treated as a method of active management, then, just as with other fund management options, its adoption is based on whether or not the investor judges it to have the potential of generating strong returns. This should allow debates regarding the violation of fiduciary duty to be avoided. We can say the fiduciary duty issues that spread across Japan in 2003 were hardly constructive as they robbed us of an opportunity to discuss the true nature of SRI due to the fact that they began and ended with shallow arguments.

(3) Future Direction

As has been stated previously, the perception of SRI in overseas pension fund markets, particularly those in Europe, has been changing immensely. In Japan, meanwhile, this trend is severely lacking. For this reason, SRI has been confined within the category of active management methods, forcing us to rely on the efforts of asset management companies for its advancement. In this environment, the expansion of the SRI market continues to be seen as inadequate.

In order to rectify this situation, efforts must be reinforced and measures must be developed to promote the spread of SRI at various stages of the pension fund management process. While it goes without saying that government support and initiatives to encourage the adoption of SRI principles by public pensions will be a key in this transition, it is also important to consider other approaches.

One approached is characterized by the expectations regarding the *Guidelines on Responsible Investment of Workers' Capital (Responsible Investment Guidelines)* released by the Japanese Trade Union Confederation (RENGO). In corporate pension funds, the committee of representatives that is the highest level of a fund's management can be considerably influenced by trade unions. Actual asset management is often conducted by asset management committees centered on smaller directing bodies. In light of this fact, it may seem as though trade unions are somewhat of an outsider in this respect. However, it holds a significant position considering the weight of the responsibility these trade unions assume as representatives of those that receive pensions from their fund. Nevertheless, in regard to SRI, which would not be brought about in the normal course of discussion, it is sufficient for a committee of representatives to discuss and consider the possibility of such investment. Taking into account the fact that 27% of funds have begun implementing initiatives that coincide with SRI principles, we should be able to expect synergy effects.

Another approach we should consider is engagement. So long as SRI is categorized merely as a means of active management, we cannot anticipate any significant progress in its advancement. Generally speaking, in equity management, over 50% of a portfolio is passively managed, with the remainder of the portfolio actively managed through diversified investment using a variety of investment styles. As a result, investment based on SRI principles generally accounts for around 5% of assets at best. Recently there has been a call for greater degrees of engagement with invested companies, especially for the passive management style. Following the scandals involving Olympus Corporation and Daio Paper Corporation, overseas investors have come to view Japanese companies with a critical eye. Meanwhile, Japanese pension funds are seen as "silent investors." Looking ahead though, is it not time that Japanese pension funds become "vocal investors" by conducting engagement based on ESG and other factors?

A third possible approach would be the establishment of fund management methods that take into full account the relationship between ESG factors and corporate value. This approach will serve as an important step toward freeing SRI from the confining definition of an active management method and making it more universal. An example of such an approach would be the one employed by SAM Indexes GmbH, a company that provides the Dow Jones Sustainability Indexes (DJSI). This company analyzes economic, environmental, and social elements to calculate the appropriate stock price of companies. A characteristic of this approach is that, as part of the process of calculating appropriate stock prices, it involves analyzing the relationship between global issues (strengthening of regulations around the world, rising populations, climate change, resource depletion, etc.) and the competitiveness of a company.

Further, the Securities Analysts Association of Japan released a report describing the relationship between ESG factors and corporate value in June 2010 entitled *ESG Factors in Corporate Valuation*. It can be anticipated that research along these lines will draw the attention of not only SRI fund managers by also a wide variety of other professionals in the fund managing industry.

In recent years, several major mainstream overseas asset management companies have become signatories to the United Nations' PRI initiative, and ESG research has been conducted. It may only be a matter of time before such trends become apparent in Japan. Hopefully, the future will hold positive developments for SRI in Japan.

2. Interviews Regarding Socially Responsible Management of Pension Funds

(1) Overview of the Interviews

As stated previously in this report, there has been a recent increase in initiatives geared toward promoting the socially responsible management of pension funds in Japan, but the details of these initiatives are yet largely unknown. In order to investigate the nature of these initiatives and facilitate our ability to support them, we held interviews with representatives of pension funds that are concerned with SRI and have begun operating their fund based on the PRI. Interviews were held with five organizations including four pension funds—Kikkoman Corporation Pension Scheme, Rokin Pension Fund Pension Fund Association for Local Government Officials, and Secom Pension Fund (listed in alphabetical order)—as well as RIPPA, a research institute that conducts research specializing in pension systems and pension fund management. The total assets of the four pension funds amounted to approximately ¥16.7 trillion in November 2011.

(2) Socially Responsible Fund Management at Organizations Investigated

Compared to a few years ago, there has been a downward trend in SRI by pension funds. In 2007, RIPPA surveyed approximately 1,400 pension funds with regard to their recognition of SRI and what SRI initiatives they are actually implementing.[1] A subsequent survey relating to ESG trends was conducted in 2011.[2] In 2011, only 250 organizations responded to this survey, a decline from the 465 that responded in 2007. Likewise, while 6.9% of the respondents stated that they were adopting SRI principles in 2007, the percentage of organizations considering ESG information when making investment decisions was only 3.2% according to the 2011 survey. The surveys indicated both the ratio of responses and the ratio of inclusion of SRI principles are declining.

However, among the pension funds with which we held interviews there were those that positively evaluated SRI principles and were actively adopting these principles. Table 2-2-1 on the following pages details the SRI initiatives implemented by each fund. Of particular interest were Kikkoman Pension Fund and Secom Pension Fund, which are both signatories to PRI and manage nearly 10% of their total assets in accordance with SRI principles. The socially responsible management efforts of three of organizations (excluding Rokin Pension Fund) were conducted through investment in Japanese stocks, and the total assets that these organizations invest in a socially responsible manner is estimated to be around the ¥15.0 billion level. When asked why they took an interest in SRI, reasons these organizations offered included the strong performance of companies that address ESG issues and compatibility with the corporate or organization philosophies or the pension fund management policies.

Looking at fund management policies, Secom Pension Fund chose investments by accounting for ESG scores. This method proved to be highly effective, and the fund is considering steadily raising the amount of SRI in the future. Other organizations stated that they would decide future policies while evaluating the performance of their current initiatives. Also, they told us that they would be interested in financial products that address the SRI issues described below, whether they be Japanese or foreign stocks, bonds, real estate, private equity, or any other class of asset.

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[1] Study Report on SRI and PRI, January 2008 [Research Institute for Policies on Pension & Aging]
http://www.nensoken.or.jp/pastresearch/pdf/sripri_houkokusyo.pdf

[2] The results of the survey have been disclosed in an edition of RIPPA's publication Nenkin to Keizai (Pension and Economics) that was released on January 31, 2012, in a section entitled "Results of an ESG Survey."

Table 2-2-1. Overview of Socially Responsible Management of Investigated Pension Funds

	Kikkoman Corporation Pension Scheme	Rokin Pension Fund	Pension Fund Association for Local Government Officials	Secom Pension Fund
SRI Initiatives	Socially responsible management began in 2004	Established policies for future SRI initiatives in June 2011	Socially responsible management began in 2009	Socially responsible management began in 2011
Reason for interest in SRI	The fund was originally inspired by recommendation from trust bank and company's participation in Global Compact. It started socially responsible management based on the belief that companies that protect environment and human rights should achieve results, as well as from a desire to conduct meaningful stock investments. SRI was compatible with the corporate philosophy.	Parent organization Rokinren implemented SRI principles in April 2010, formed SRI evaluation committee, established regulations, and was elsewise proactive regarding SRI.	The fund was previously interested in public-side of companies. In a public offering of investment management of Japanese stock, that an asset management company proposed SRI product. They judged the SRI product potentially profitable and accepted the proposal as part of active management to secure overall long-term profitability.	ESG investment method was proposed by a consultant. They started ESG investment based on the belief that they can generate stable income and absolute returns by utilizing ESG information to find superior managers.
Ratio of socially responsibly invested assets	Approx. 8% (2 funds, 100% Japanese equity funds)	0% (Current policy sets upper limit of 1%)	Approx. 0.06% (Future policies to be considered while judging management circumstances)	Under 10% (Ratio to be steadily increased including non-stock assets)
Year of PRI joining	2006	Not a signatory	Not a signatory	2011

Source: Prepared by SIF-Japan based on interview content

(3) Issues for Spreading SRI among Pension Funds

The ratio of pension fund assets managed in a socially responsible manner is currently fairly low, and signs of significant increases occurring in the near future are not apparent. Several issues regarding SRI were pointed out during the interviews, including (1) the performance of SRI, (2) the difficulty of evaluating ESG factors, and (3) the low visibility of SRI and ESG issues.

Opinions regarding issue 1 were divided. Some were skeptical regarding the possibility of high performance being realized through SRI, stating that SRI portfolios were mainly composed of large cap and value stocks, thus leading to low performance, and others suspended judgment since they simply thought it was too early to judge. Others, however, were more optimistic, believing that SRI could generate absolute returns if they were to concentrate on stable income gain rather than focusing on relative returns.

In response to issue 2, there were several opinions that were doubtful about the possibility of evaluating ESG issues appropriately. Reasons cited include the lack of a set definition and clear evaluation standards for ESG, the scandals caused by the companies that scored high on ESG ratings, and the fact that, just as nuclear power was considered to benefit the environment in the past due to its contribution to CO_2 emission reduction, it is hard to objectively evaluate what is environmentally friendly. In order to evaluate a company based on ESG factors properly, it is necessary to improve the quality and transparency of ESG evaluations.

Addressing issue 3 is a long-term task. In order for socially responsible management of pension funds in Japan to become as common as it is in Europe or the United States, it is absolutely essential that awareness of SRI and ESG issues be raised. Raising this awareness will be largely dependent on society's concern for environmental and social issues. In the interviews, some experts explained how the social call for resolution of problems such as the use of cluster bombs, child labor, and destruction of forests forced even pension funds to conduct SRI, subsequently driving the expansion of SRI practices. Education facilities, the media, and NGOs play an important role in raising concern for environmental and social issues.

As a short- to medium-term task, it is important for asset management companies and pension consultants to make appropriate proposals and sales of SRI related products, as requested by pension funds.

In the future, it is expected that the issues mentioned above will be appropriately resolved and SRI will become an effective tool for evaluating sustainable management of corporations.

3. RENGO's Responsible Investment Initiatives (Special Contribution by RENGO)

(1) Establishment of Responsible Investment Guidelines

In December 2010, the Japanese Trade Union Confederation (RENGO) released its *Guidelines on Responsible Investment of Workers' Capital (Responsible Investment Guidelines)*. RENGO's membership comprises of labor unions from approximately 10,600 different companies. The *Responsible Investment Guidelines* are used by these unions to direct their efforts to responsibly manage their capital and their company's pension funds.

The term "workers' capital," as used by RENGO, refers to funds generated through either employee contributions or contributions on behalf of employees. The most common example of workers' capital would be pension funds. However, workers' capital is not only limited to pensions, but rather encompasses a wide variety of funds including strike funds and mutual aid funds independently operated by labor unions. In a broader sense, the term can also be used to refer to the funds of Labour Banks and the National Federation of Workers and Consumers Insurance Cooperatives.

Also, "responsible investment," as defined in the *Responsible Investment Guidelines*, is the practice of considering ESG factors as well as other non-financial factors, in addition to traditionally considered financial factors, when making investment decisions that utilize workers' capital. It also entails actively exercising the rights granted to shareholders and asset owners.

(2) Reasons for Practicing Responsible Investment

There are several factors that lead to the establishment of the *Responsible Investment Guidelines*. As mentioned previously, workers' capital includes all capital managed independently by labor unions. However, the primary form of workers' capital is no doubt pension funds, which is at the heart of most discussions.

Traditionally, workers (trade unions), those to which workers' capital belongs, have participated in the management of pension funds through involvement in committees of trustees, representatives, or other fund managing bodies, in accordance with applicable laws and regulations. However, these workers (trade unions) are generally only concerned with the results of fund management. Therefore, they are not always active in all areas of fund management, with participation in areas such as management policy formulation and investment selection generally lacking. Moreover, workers (trade unions) tend not to be fully considerate of their ability as investors to influence the companies in which their pension funds are invested.

The relationships between shareholders and companies, workers and companies, and consumers and companies are all closely interrelated. Workers expect revenues to be generated through proper management of the pension funds attributable to them, which causes them to invest in the stocks of companies, becoming shareholders with the ability to influences a company's business activities. At the same time, they are often employees at the companies' in which they invest and may even use such companies' products as consumers. Further, they are also people that live through the benefits of the social and natural environment. In these ways, workers have many faces and many perspectives. In other words, becoming shareholders as part of the management of pension funds causes workers to be responsible for their influence on the actions of companies, employees, and consumers as well as the lives of others and subsequently the greater global environment.

It is for this reason that RENGO believes workers (trade unions) need to reassess their responsibility as the owners of workers' capital, and take care not to invest capital in a manner that supports the destruction of the environment, illegal activities, child labor, hostile takeovers, or other actions that can adversely impact society. The role workers (trade unions) play in fund management should not be passive, but rather they should become more deeply involved and play an active role in the management of funds. RENGO feels it is important for workers to practice responsible investment, acting of their own accord to influence the direction and usage of funds to contribute to the development of a fair and sustainable society.

The progression of globalization brings with it the benefits of bolstering international trade, invigorating economies, and expanding employment opportunities. However, it also has its negative impacts, which include contributing to environmental destruction as well as overconcentration and disparities in wealth on global scale, leading to increased occurrences of child labor and human rights violations in developing countries, and encouraging corporate mergers and acquisitions that result in unstable employment and worsening of employment conditions. It could thus be said that the financial crisis of fall 2008 and ensuing global recession and associated destabilization of employment systems served as a warning of the dangers of over-competitive markets and ultra-capitalistic tendencies.

Management of pension funds has come to account for some of the world's largest acts of institutional investment, thus giving such fund management the ability to significantly influence social and corporate activities. RENGO therefore strives to communicate the need for workers (trade unions), the owners of such influential pension funds, to engage in labor movements geared toward preventing the progression of globalization from adversely affecting society.

(3) Key Points of the *Responsible Investment Guidelines*

The *Responsible Investment Guidelines* established by RENGO serve as a guide for workers (trade unions) in practicing responsible investment based on ESG information. The Guidelines include fundamental principles, possible actions to be taken by trade unions, and procedures for responsible investment (see reference materials included at the end of this chapter for details).

For consideration of the environmental (E) elements of ESG factors, the Guidelines include provisions calling for the observance of international treaties and agreements, such as the UN Framework Convention on Climate Change (1992), the UN Convention on Biological Diversity (1992), and the Kyoto Protocol to the UN Framework Convention on Climate Change (1997). They also encourage negative screening, when companies whose actions are harmful to the environment are not considered investment candidates, and positive screening, when companies that actively address environmental issues are selected as investment candidates.

For social (S) elements, the Guidelines encourage investors to refrain from investing in companies that violate the labor standard established by the International Labour Organization (ILO), particularly focusing on its eight fundamental labor standards conventions. For the governance (G) elements, the Guidelines emphasize the importance of evaluating compliance with the OECD Guidelines for Multinational Enterprises. The Guidelines also stipulate other measures related to these issues.

Further, the *Responsible Investment Guidelines* suggest that an ESG-based perspective should be taken when viewing companies in which workers are currently investing. They describe means of conducting engagement with invested companies to guide corporate actions. For example, in the event that an invested company was to conduct antisocial or unethical behavior, the Guidelines recommend the exercising of shareholders' rights to rectify the situation through such means as requesting improvement from the company's management or voting at shareholders' meetings.

However, it is currently rare for workers (trade unions) to manage workers' capital directly, and much more common for them to entrust this task to institutions that specialize in such management. Therefore, even if workers (trade unions) were to desire responsible investment, whether or not it is actually conducted is often left entirely up asset management companies. Particularly in terms of engagement with invested companies, shareholders' rights are generally entrusted to asset management companies, raising the importance of these institutions in investments. For these reasons, the Guidelines detail the importance of workers (trade unions) playing an active role in the selection of asset management companies.

(4) Future Challenges and Initiatives

RENGO cannot directly influence the management of other organizations' pension funds, nor does it possess significant funds itself. Therefore, the only organizations capable of enacting the *Responsible Investment Guidelines* are industrial unions and enterprise-based unions. When compared to the United States and principle European nations, responsible investment practices in Japan are still in their infancy and quite small in scale. Therefore, there are very few documents compiling the information and procedures necessary to conduct responsible investment, thus forcing us to develop such tools one step at a time. As one step in this process, RENGO established a task-force on responsible investment of Worker's Capital in March 2011, enabling it to support the efforts of industrial unions and enterprise-based unions to invest workers' capital in a responsible manner by providing information, holding discussion forums, and other means. Representatives from almost all major RENGO member unions participate in this committee. RENGO's responsible investment initiatives only started recently. Regardless though, it has conducted successfully discussions regarding responsible investment with a number of businesses and pension fund managers, and there are unions that have already approved the implementation of responsible investment initiatives as a result.

When making decisions based on ESG and other non-financial elements in addition to financial elements, the proper method for evaluating a company's ESG initiatives naturally comes into question. Of course, in order to evaluate these initiatives, it also essential that a company discloses information on such initiatives.

It goes without saying that RENGO must be able to effectively promote responsible investment if its member unions are to conduct and expand such practices. However, it is also important that companies disclose ESG information, organizations and people capable of evaluating such information be developed, and asset management companies create ESG-related management services. Such initiatives should be advanced simultaneously.

RENGO, as a representative of 6.8 million workers, is encouraging the Government Pension Investment Fund, the world's largest pension fund, and the managers of the public pension funds, such as the mutual aid pensions of national and municipal government employees in Japan, to practice responsible investment.

It is likely that financial elements will always remain the primary factors behind fund management decisions. Regardless of this though, RENGO aims to prove that supporting (investing in) the ESG initiatives of companies and industries, the main players in the economy, will provide fund operation returns in the medium- to long-term.

Reference Materials

Guidelines on Responsible Investment of Workers' Capital (Excerpt)

1. The Purpose of "Responsible Investment of Workers' Capital"

The exercise of responsible investment as part of the management of workers' capital is to promote socially responsible corporate conduct and financial transactions and to contribute to establishing a fair and sustainable society.

2. Definitions

(1) For the purposes of the Guidelines the term "workers' capital" shall refer to funds such as pension funds which have been contributed to by workers and/or contributed to on the behalf of workers.

(2) The term "responsible investment" refers to the incorporation of non-financial factors such as "ESG (environmental, social and corporate governance)" in addition to financial factors into the investment decision-making processes and accounts, and the exercise of shareholders' rights.

3. Fundamental principles of responsible investment of workers' capital

In analysis and decision-making processes of workers' capital:

（1） Non-financial factors such as ESG shall be taken into account;

（2） The protection of workers' rights shall be taken into account;

（3） Efforts shall be made to exclude speculative investment and to secure mid- and long-term stable returns;

（4） Efforts shall be made to secure transparent management, disclosing investment policies and techniques of responsible investment;

(5) Appropriate action shall be taken in cases where a company in which workers' capital is invested is seen to engage in anti-ethical or anti-social conduct;.

(6) Investment managers shall be requested to engage in responsible investment with a view to making responsible investment the mainstream of the financial market.

4. Possible actions to be taken for responsible investment of workers' capital"

Workers (trade unions) shall:

(1) Participate in investment decision-making processes of workers' capital, recognizing their responsibilities and authority as owners of workers' capital;

(2) Engage in dialogue with employers contributing to workers' capital and determine methods of responsible investment;

(3) Participate in the selection of investment managers, specifying investment policies and the methods of responsible investment;

(4) Monitor the management of workers' capital to avoid situations where workers' capital is invested in a speculative manner;

(5) Request that asset management companies and other relevant partners respect the way of managing pension funds in order to secure stable mid- and long-term and ensure that the financial resources for the provision of pensions are not unduly impaired;

(6) Take appropriate shareholder action such as dialogue with the management of the company in which workers' capital is invested in and exercising shareholders' voting rights and request that investment managers and other relevant partners engage in action that is in the best interest of the shareholders ;

(7) Strengthen the solidarity between workers (trade unions) through such actions as publicizing investment policies and/or guidelines of workers' capital.

5. Procedures for responsible investment of workers' capital"

The process for conducting responsible investment of workers' capital to be followed by workers (trade unions) is explained below.

As responsible investment of pension funds, the most representative example of workers' capital, cannot be conducted by workers (trade unions) alone, discussions with businesses and funds (committees of trustees, etc.) are to be held and cooperation is to be sought.

(1) Determination of non-financial factors to be incorporated into investment decision-making processes

Non-financial factors to be incorporated into investment analysis and decision-making processes are to be determined in order to implement responsible investment.

(Following text has been omitted)

(2) The determination of responsible investment methods

Methods of responsible investment are determined based on non-financial factors incorporated into investment decision-making processes. Major methods for responsible investment are screening, engagement, and community investment.

(Following text has been omitted)

(3) Selection of an investment manager

An investment manager is to engage in the management of workers' capital in accordance with (1) the evaluation of non-financial factors incorporated into investment decision-making processes and (2) their methods. The criteria to be incorporated into investment processes and investment methods shall be clearly indicated to the investment managers.

(Following text has been omitted)

Chapter 3. Shareholder Advocacy

1. Changes in Shareholder Advocacy in Japan

(1) ESG-Related Shareholder Proposals in 2010 and 2011

A characteristic of shareholder advocacy in Japan would be the large number of cases in which proposals are made by individual shareholders or groups of individual shareholders collectively possessing 300 voting right units or more, one of the conditions for making shareholder proposals. Figure 3-1-1 contains data from Institutional Shareholder Services Inc. (ISS). This data shows that the number of shareholder proposals made in Japan increased substantially from 70 in 2010 to 119 in 2011. However, this increase is primarily the result of a large number of proposals made to HOYA CORPORATION, Toshiba Corporation, and SUN CITY CO., LTD.[3] from one shareholder each. Each of these companies received between 10 and 20 proposals from individual shareholders in 2011. Therefore, this trend does not represent a sharp rise in shareholder proposals in Japan on the whole.

Figure 3-1-1. Number of ESG-Based Shareholder Proposals Over the Past 5 Years

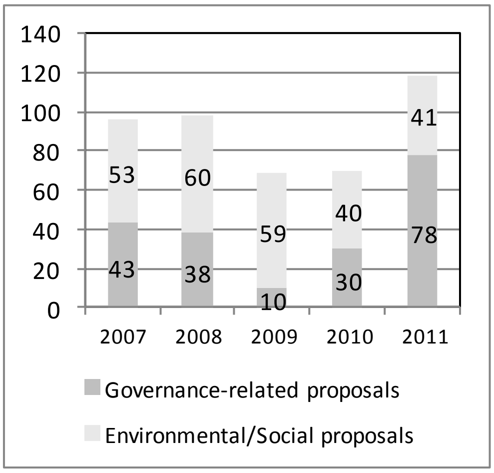
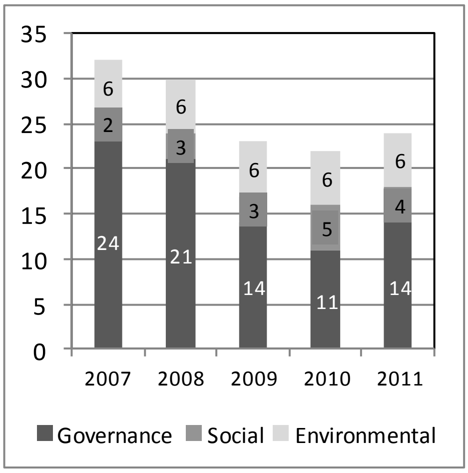


Figure 3-1-2. Number of Companies Receiving ESG-Based Shareholder Proposals



Source: Institutional Shareholder Services Inc.

As shown in figure 3-1-2, the number of companies receiving proposals based on ESG factors was 22 in 2010 and 24 in 2011, displaying no notable change. Of those, 6 that received proposals relating to the environment in each year were power companies and all of the proposals were opposed to nuclear power. In this manner, excluding governance-related proposals, environmental- and social-related shareholder advocacy activities in Japan primarily focused on voicing opposition to nuclear power. The type of engagement targeting resolution of environmental destruction and human rights issues that is common in the United States has yet to become a norm in Japan.

(2) Notable Shareholder Meeting in 2011

One shareholder meeting at which there was much discussion of environmental and social issues was the General Meeting of Shareholders of the Tokyo Electric Power Company, Incorporated (TEPCO), the

3 Delisted from stock exchanges effective October 27, 2011

company that caused serious nuclear safety and environmental problems due to the impacts of the tsunamis following the Great East Japan Earthquake. The company has received several proposals from a group of individual shareholders opposing nuclear power every year at its General Meeting of Shareholders. Until recently though, these proposals have never aroused much attention from mainstream institutional investors or Japanese society. In previous years, the shareholder group has requested the company to disclose more information regarding the operation of its nuclear power stations and implement better safety measures. However, following the incidents at its Fukushima Daiichi Nuclear Power Station in 2011, TEPCO received one proposal suggesting the systematical closure of older nuclear power stations and the cessation of construction of new nuclear power stations currently underway. Though this proposal was voted down, support for such nuclear power opposing-proposals grew slightly from 5.32% in 2010 to 8.01% in 2011[4].

(3) ESG Disclosure and Japanese Institutional Investors

There was a vast improvement in the transparency of shareholder meetings during the 2010 shareholder meeting season. The Cabinet Office Ordinance on Disclosure of Corporate Affairs and Other Related Matters was revised, effective as of March 31, 2010 to require companies to submit an Extraordinary Reports (“Rinji Hokokusho” or “Rinpo”) disclosing information regarding the exercise of shareholder voting rights for each proposal at the shareholder meeting. Companies have traditionally issued a resolution notice to their shareholders stating, in most cases, the fact that all proposals were approved at the shareholders meeting. However, in terms of actually voting statistics, disclosure was limited to the rare cases such as contested cases. Thanks to the revision, companies are requires to disclose the number or percentage of voting rights for each proposal, resulting in notable improvements in transparency. The same revision also requires companies to disclose information regarding remuneration policy and board members receiving remuneration/compensation of over ¥100 million in their Annual Securities Report (”Yuka Shoken Hokokusho” or “Yuho”). Information disclosed in this matter has been covered extensively by the media and has gained a great deal of public attention. Further, the Tokyo Stock Exchange required listed companies to register at least one independent board member including board of corporate auditors by March 31, 2010. Such developments have served to enhance disclosure and reassert the importance of discussions on the independence of the company board.

There is also a movement among institutional investors in Japan toward announcing results for the exercise of voting rights. The first attempt at continual disclosure of voting rights exercise details by investors was taken by the Japan Securities Investment Advisers Association (JSIAA) in October 2002, when it compiled and released data relating to its members. Following this, the Pension Fund Association (PFA) and certain asset management companies announced statistical data, but these developments did not spread further. In the United States, meanwhile, mutual funds have been required by the Securities and Exchange Commission (SEC) to file reports on the exercise of voting rights since 2004. This information is reported using a standardized form (Form N-PX) and these filings are made available to public via internet. Other initiatives seen overseas include discussions pertaining to PRI and the UNEP Finance Initiative as well as the implementation of the Stewardship Code in the United Kingdom. A more

[4] Percentages are from an Extraordinary Report published by TEPCO.

recent development would be the JSIAA's establishment of a guideline for publicizing statistics on the exercise of voting rights in January 2010, a move that was in line with the discussions regarding corporate disclosure. In accordance with the guideline, JSIAA member companies conducting discretionary investments for their clients to assume fiduciary responsibilities for the exercise of voting rights, began publicizing data. The Trust Companies Association of Japan, The Investment Trust Association of Japan and The Life Insurance Association of Japan also issued guidelines in the same context.

Table 3-3-1. Results for Exercise of Voting Rights by JSIAA members

	2006	2007	2008	2009	2010	2011
Appropriation of surplus	20,123	27,113	19,558	21,549	21,323	19,622
Against/Abstain votes	6.0%	5.9%	4.1%	1.8%	2.8%	4.2%
Election of Director(s)	24,402	134,917	81,000	107,839	86,944	73,602
Against/Abstain votes	10.4%	5.0%	9.2%	7.6%	7.9%	9.5%
Election of Corporate Auditor(s)	14,054	42,197	30,097	26,873	22,918	29,518
Against/Abstain votes	14.0%	19.2%	16.3%	19.9%	22.9%	21.8%
Partial Amendments of the Articles of Incorporation	19,991	14,409	9,317	29,761	6,354	5,951
Against/Abstain votes	23.0%	11.0%	13.5%	7.3%	5.2%	3.4%
Retirement benefit payment	11,172	15,865	9,471	8,216	5,642	5,347
Against/Abstain votes	28.4%	27.1%	24.7%	21.7%	25.4%	30.6%
Revision of Remuneration Amount for Directors/Corporate Auditors	7,668	14,764	8,738	5,371	5,285	5,650
Against/Abstain votes	8.6%	4.4%	3.4%	5.1%	6.0%	5.3%
Granting of Stock Acquisition Rights	3,546	4,222	3,294	2,573	2,914	2,649
Against/Abstain votes	16.5%	29.7%	23.5%	24.0%	24.2%	26.0%
Election of Accounting Auditor	1,151	5,451	733	701	517	1,058
Against/Abstain votes	5.3%	1.4%	0.7%	2.9%	1.4%	7.7%
Organizational restructuring	637	788	559	882	611	362
Against/Abstain votes	4.9%	3.0%	6.3%	12.2%	5.9%	8.8%
Other Management proposals	2,067	25,498	7,619	8,648	6,888	6,279
Against/Abstain votes	14.9%	14.4%	23.1%	20.1%	32.0%	29.2%
Total （*１）	105,351	285,224	170,386	212,193	159,396	150,038
Against/Abstain votes	14.9%	10.2%	11.4%	9.8%	11.2%	12.7%

（*１）Differences in the scope of calculations for the total percentage of against/abstain votes and percentages for individual items may cause disparity between figures.

Source: Japan Securities Investment Advisers Association

In the 2011 shareholder meeting season, no major ESG issues that impacted the whole of listed companies were raised. However, the Olympus Corporation and Daio Paper Corporation scandals that broke in the latter half of 2011 have once again turned a critical eye toward the corporate governance systems of Japanese companies. These scandals have resulted in discussions about the possibility of revising the Companies Act of Japan to prevent future incidents. Proposals include (1)requiring companies to elect independent outside director(s), (2) creating a new board structure to establish an "auditing and monitoring committee" in addition to the "US type 3 committee board" and "traditional companies with a board of corporate auditors" and (3)reviewing business combination structure between a parent company and its subsidiaries. On December 7, 2011, the Companies Act Subcommittee of the Legislative Council to the Minister of Justice released the "Interim draft on revision of the Company Act[5]."

2. Investor Engagement with ESG global data (Special Contribution by FTSE)

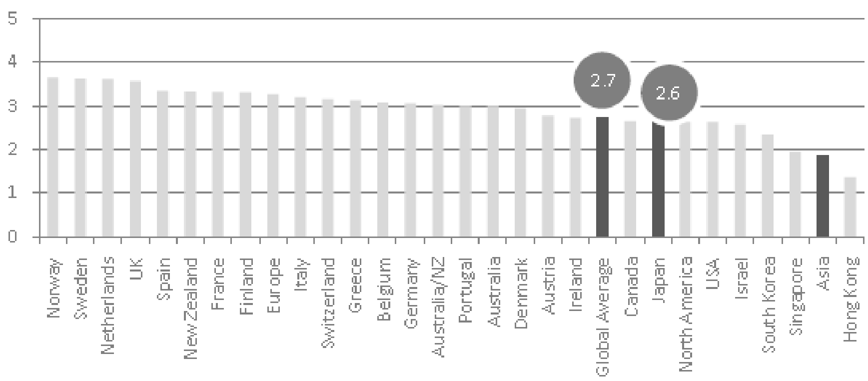
Globally, we have seen the trend of investors interested in extra-financial data evolve from a simple exclusionary screening approach to the integration of ESG factors into the investment decision making process. To address such investor needs, financial service providers including ESG research houses, financial data providers and index providers have evolved their products and services to be better suited for the integration approach.

But how do investors actually use such information, and how can they choose which source of information to use? As integration of ESG data into the investment process is considered seriously for the first time, effective use of growing ESG data sources is key. Whilst there may be many ways to do so, below are some examples of how one can engage with ESG Ratings data to communicate with companies, other investors, and conduct investment decisions.

(1) Evaluating ESG performance from a global perspective

Researching and evaluating companies using a standardized ESG assessment approach will allow you to conduct various trend analyses. For example, if you take a look at the companies included in the FTSE All World Developed Index[6] and compare the overall ESG scores based on the FTSE4Good ESG Ratings, you will see that the average scores of Japanese companies are just below the global average (Figure 3-2-1)[7]. When you look further into the average scores by companies in the six ESG themes, you can see the strengths and challenges faced by Japanese companies compared to their peers in other countries. For example, Japanese companies generally do better on the environmental management and climate change criteria, whilst there are greater challenges on the social and governance issues such as supply chain labour standards and corporate governance (Figure 3-2-2).

Figure 3-2-1: Country averages of overall ESG scores



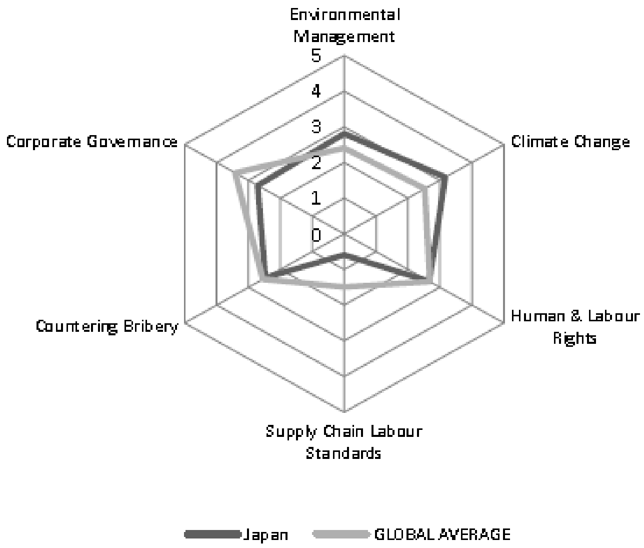
Source: FTSE

5 http://www.moj.go.jp/shingi1/shingi04900107.html (Japanese only)

6 Listed companies from 25 developed markets identified as large or mid size by market capitalization

7 For both graph 3-2-1 and 3-2-2, each company is assigned a score between 0 and 5, with 5 as the highest score

Figure 3-2-2 Average thematic ESG scores: Japan VS Global average



Source: FTSE

One may be inclined to think that such data and observation is only relevant for those investors with global mandates. However, with foreign shareholders owning approximately a third of total shares of Japanese companies, the view of global investors who may be using such investment strategies can have a significant impact on the value of the companies themselves. Therefore, it is just as important for domestic investors to understand the meaning of such data and apply it to their actions and investment decisions.

ESG data which use a globally applicable approach to assess companies can be useful to understand how Japanese companies are evaluated and viewed by investors in relation to their global peers. Even when evaluating companies based on the same concept, the indicators by which companies are evaluated may differ when taking a country-by-country approach or a global approach. For example, dealing with sexual and power harassment[8] issues as well as a promoting a healthy work-life balance may be important factors to consider when evaluating employee human rights of operations within Japan. However, as a company operating globally including in those countries with greater potential exposure to labour rights concerns, the same Japanese company may need to be evaluated for their alignment with the principles of the ILO core labour standards as the key human rights issue. Therefore, it is important to understand the different approaches taken by local and global research and data providers, as both are relevant but serve a different purpose and outcome for investors.

(2) The future of engagement by Japanese domestic investors

Understanding different approaches to evaluating company ESG activities can help investors have effective conversations with a wide range of stakeholders. As key players in the domestic market, Japanese institutional investors may wish to engage with the investee companies identified to have poor practices against international standards. Whether the issue in question is of particular concern to individual investors may be irrelevant - the fact that these evaluations may affect the view of global investors which may ultimately affect the direction of the company is the important factor to note. Domestic investors can take this opportunity to listen to the view of the domestic companies, and help

[8] Power harassment is a terminology often used in Japan referring to employees taking advantage of their senior position against their juniors

them to clarify communication around these issues that would enhance the understanding from the foreign investors.

With the increase of companies with global operations and global investors keen to compare companies with similar business activities with a standardised approach, there are often various historical and cultural factors that influence the way companies operate in a certain country or region. As investors who would like to see a sustainable local market and economy, local investors can play a key role in explaining the context to their global peers.

For example, the independence and separation of the CEO and Chairman has been seen as one of the key factors for evaluating good corporate governance, especially by European investors. The underlying concern by investors is to separate the role of "CEO" as the head of management and the "Chairman" as head of the board in order to avoid overconcentration of power. In Japanese companies, the head of the company (translated into English as 'president' or 'CEO') often also plays the role of the head of the board committee, and in this sense faces the same challenge as their US and European peers. However, language and structural differences can cause confusion amongst foreign investors, as what Japanese companies translate to be their "chairman" in English reports is often not the "chairman of the board" but a retired senior member of the company who is a symbolic figurehead and does not have similar levels of responsibilities. Therefore, a simple separation of what is translated as "CEO" and "Chairman" may not be sufficient to address the separation of executive and board responsibilities. In order to relay such structural differences and to address the essence of the investor concerns accurately, Japanese investors are encouraged to play a more proactive role.

With more than 160 service providers signed up to the UN PRI, and the constantly evolving ESG debate, it may seem a little daunting for domestic investors to engage with the data and dialogue. However, as the impact of this global debate on local markets and companies is inevitable, it should be in the best interest of domestic investors to proactively take part in the present, rather than to be obliged to follow a predetermined path in the future. As the Principles for Financial Action towards a Sustainable Society are launched and gather momentum in Japan, it may be an opportune time for investors to review their responsibility to engage with international debates and ESG data which may affect the value of their investment portfolio and stability of the local market.

Chapter 4. Community Investing

1. Overview of Community Investment in Japan

Community investment can be characterized as investment activities with the goal of contributing to local communities. It is one of the three types of SRI. In Japan, movement on this front was limited until the 2000s. While this sector is still relatively small, activity is becoming vigorous among NPO banks, citizen's funds, microfinance institutions (MFIs), and other organizations, making it possible to grasp the overall trends.

In this chapter, we will look at community investment in Japan, describing its current state and the course of its development while focusing on the trends that have appeared since the publication of 2009 Review of Social Responsible Investment in Japan. We will also closely examine initiatives relating to the restoration effort following the Great East Japan Earthquake. This chapter aims to compare trends in Japan with those seen in Europe and North America. Accordingly, just as was done in the 2009 Review, the scope of this chapter was limited to alternative initiatives in which the main entity behind community finance was citizens (citizen-financed initiatives), and it excludes the initiatives of governments and traditional financial institutions (microfinance and bond initiatives recently implemented by securities companies, etc.). This chapter 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.).

The amended Money Lending Business Act temporarily threatened the continued existence of NPO banks. However, these banks were able to secure the necessary funds for operation through legislative subsidies. Two new organizations have been established recently, and such NPO banks have begun approaching individuals. Still, growth in investing and financing of these institutions has been gradual, as has the speed of their spread throughout Japan.

Immediately following the Great East Japan Earthquake, a number of citizen's funds were established to support the restoration of businesses in the affected regions. There was also a rise in activity among funds that support renewable energy businesses after the safety issues with TEPCO's Fukushima Daiichi Nuclear Power Station surfaced.

In regard to microfinance, the various institutions that appeared in the late 2000s continued to finance initiatives targeting developing countries.

2. Conditions of Different Areas of Community Investment

(1) NPO Banks

NPO banks are a type of "citizens' non-profit banks" established with the purpose of supporting socially beneficial ventures, such as providing funding to non-profit organizations and individuals facing social exclusion. They carry out activities for the benefit and welfare of the community or for environmental preservation through funds provided voluntarily by citizens. Even though these institutions are referred to as banks, they are not depository financial institutions under Japan's Banking Act. Their financing comes mostly from financial contributions received (and therefore the principle is not guaranteed, and no interest or dividends are paid), and the majority of these banks are operated as lending businesses under

Japan's Money Lending Business Act.

NPO banks in Japan faced a temporary threat to their ability to be established and continue operations due to the stricter regulations that accompanied the 2006 revision of the Money Lending Business Act. However, directly before the act went into full force in June 2010, the classification of special non-profit financial institutions, to which NPO banks belong, was established. This allowed NPO banks to legally receive subsidies, thus enabling them to continue operation.

Currently, there are 19 NPO banks in Japan. Of these, 11 primarily focus on funding social enterprises, 7 attempt to assist individuals in financial need (such as those with severe debt), and 1 offers lifestyle financing through mutual aid among members of the Catholic Church.

Table 4-2-1 contains data from Japan NPO-BANK Network that describes the scale of NPO banks in Japan that finance social ventures as of March 31, 2011 (figures in parentheses are as of March 31, 2009)[1]. On March 31, 2011, the number of applicable institutions was 11 (11), the total subscribed capital of these institutions was ¥538 million (¥526 million), loans outstanding were ¥285 million (¥221 million), and total loans provided were ¥2,106 million (¥1,683 million). While total loans provided increased, the rise in subscribed capital over the two-period was minimal.

Of particular interest among NPO banks that assist individuals was the Student Support Foundation, which was established in 2005. This institution's loans outstanding exceeded ¥200 million in July 2011, and only 1.3% of debt in fiscal 2010 was irrecoverable. Moreover, this institution has successfully developed a social rehabilitation program based on a trusting cooperative model thought to be impossible to implement in urban areas, earning it much acclaim. This model entails offering support to people faced with severe debt starting with consultation and counseling, then providing appropriate deferred payment relief financing followed up by support based on the individual circumstances of the person receiving financing. This model helps improve the viability of relief financing. Recently, the institution has begun shifting in focus from assisting people facing debt to addressing lifestyle and poverty issues. In addition, Refugee Microfinance became certified as a public interest organization in 2012. Having changed its name to Entrepreneurship Support Program for Refugee Empowerment, the organization intends to undertake financing ventures in the future.

[1] To facilitate comparisons, data regarding apbank from both timeframes is excluded. However, it has been included in the number of institutions.

Table 4-2-1. NPO Banks in Japan that Finance Social Ventures

Source: Japan NPO-BANK Network (data as of March 31, 2011)

Units: JPY million

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	Environmental goods purchase, NPOs, ecological housing, etc.	162,885	967,294	62,573	Interest: 3% (special collateral-backed financing: 1%) Max. JPY 9 million Max. term: 10 years	–
Women's and Citizens' Community Bank	1998	NPOs and W.Co [2] engaged in projects in Kanagawa Prefecture	127,440	477,765	82,656	Interest: 1.8～5% Max. JPY 10 million Max. term: 5 years	–
Hokkaido NPO Bank	2002	NPOs, W.Co.	44,709	270,270	11,314	Interest: 2% (standard loans) 5% (3-month loans) Max. JPY 2 million Max. term: 2 years	Donations 7.030
NPO Yume Bank (Nagano Prefecture)	2003	NPOs	13,600	158,790	26,204	Interest: 2～3% Max. JPY 3 million Max. term: 3 years	Donations 35,064 Borrowings 20.000
Tokyo Community Power Bank	2003	W. Co., NPOs, citizen entrepreneurs, etc.	87,150	145,700	61,833	Interest: 1.5～2.5% Max. JPY 10 million Max. term: 5 years	–
ap bank	2003	Renewable energy and other environment-related projects		307,174 (2010/3)		Interest: 1% Max. JPY 5 million Max. term: 10 years	–
Community Youth Bank "momo"	2005	Projects that empower local communities to have brighter future	45,490	52,460	19,407	Interest: 2.5% (bridge financing: 2%) Max. JPY 5 million (by principle) Max. term: 3 years (by principle)	–
Natural House Bank	2008	Bridge financing for home reform or purchase	39,315	8,504	1,623	Interest: 2.0% Max. JPY 5 million Max. term: 10 years	–
Moyai Bank Fukuoka	2009	NPOs and social entrepreneurs that operate in Fukuoka Prefecture or the surrounding areas, etc.	11,310	8,700	5,343	Interest: 1.5～3.0% Max. JPY 3 million Max. term: 3 years	–
Shinrai Zaidan.	2009		0	15,500	13,335	Interest: 0% Max. JPY 3 million Max. term: 2 years	Donations 24,750
Piece Bank Ishikawa	2010	NPOs and other socially beneficial ventures in Ishikawa Prefecture, ventures that contribute to creating job opportunities and improving communities in Ishikawa Prefecture	6,571	1,150	1,090	Interest: 3% (bridge financing: 1%) Max. JPY 3 million Max. term: 5 years	
Total			538,470	2,413,307	285,378		

[2] W.co refers to "worker's collective," a cooperative association in which members neither hire nor are hired, but rather where workers jointly contribute capital, and the owners of each business or operation work as equals, to create businesses that provide things and services needed in a community.

(2) Citizen's Funds

The activity of citizen's funds through the Securite project, operated by Music Securities, Inc., has been a particularly apparent. We have also noticed a rise in activity among funds that support renewable energy businesses in response to the safety issues that were uncovered at TEPCO's Fukushima Daiichi Nuclear Power Station. Citizen-funded renewable energy business funds help improve the awareness of ordinary people regarding the environment and facilitate localized production and consumption of energy. According to an investigation by Music Securities[3], there are currently 12 funds of this nature in Japan, and these funds have managed to collect approximately ¥2,881.7 million.

(3) Microfinance

Microfinance refers to financing activities aimed at helping impoverished individuals or those in low-income brackets achieve financial independence. In Japan, a number of NPOs are conducting such initiatives to support developing countries. Major organizations participating in these initiatives include Oikocredit Japan, LIVING IN PEACE, and ARUN, LLC. Another organization would be Kiva Japan, which conducts microfinance via the Internet and is working to spread its Kiva philosophy and activities throughout Japan.

Further, it could be said that the NPO banks assisting individuals mentioned previously, while not going as far as to foster the development of businesses in the way that NPO banks supporting developing countries do, embody microfinance in their efforts to help the poor.

(4) Financing to Support Post-Great East Japan Earthquake Restoration

Following the outbreak of the Great East Japan Earthquake, a substantial amount of donations was collected to support the affected regions. Echoing this, a number of projects were launched to procure funds to finance the restoration of businesses in these areas. For example, Music Securities established a fund to provide financial support to quake-stricken businesses looking to rebuild operations. Investors participating in this initiative become silent partners of the invested business. Fund representatives (one for each business) treat this capital collected from citizens as a deposit, and issue dividends based on the performance of the invested business. The principle may be not guaranteed, but many of these funding programs are scheduled to be conducted over long period of five to 10 years. Also, as a special bonus, after a business has successfully renewed operations, investors are eligible to receive the free products from the first batch produced or free services. Reflecting the rise in awareness among citizens after the earthquake, up until November 11, 2011, an aggregate total of 28 funds were formed to support 27 affected companies. These funds collected approximately ¥420 million from roughly 12,000 people.

3. Projected Future Developments and Challenges

(1) Establishment Systematic Support Structures

The scale and quality of community investment in Japan is quite low compared with the strong

[3] Statistics attributable to Music Securities, Inc., are from the company's presentation for the 9th meeting of the Medium- to Long-Term Vision for the Japanese Financial Industry Work Group of the Financial Services Agency's Financial System Council (held on December 16, 2011) and the winter 2011 edition of their Securite Report.
http://www.fsa.go.jp/singi/singi_kinyu/w_group/siryou/20111216/03.pdf (Japanese only)
http://www.securite.jp/_common/pdf/securite_report_2011win_blog.pdf (Japanese only)

development seen in Europe and North America. The largest difference between the environment for community investment in Japan and the environments seen in European and North American countries is the presence of clear government support systems for this type of investment. For example, in the United States, there are community development financial institutions (CDFIs). These institutions serve as highly specialized financial intermediaries that facilitate the activity of collecting funds from a wide variety of sources, including the government, banks, foundations, and individuals, and using these funds to support people in low-income brackets and finance regional initiatives. Also, the US's Community Reinvestment Act of 1997 (CRA)[4] helps banks better respond to the community's need for credit.

In Japan, however, there are no systematic government support structures for promoting active community investment. To rectify this situation, there is movement centered on the Citizen's Government Policy Research Institution to establish a law to support this type of investment. The proposed title for this law is the Act on Non-Profit Financial Businesses that Promote the Funding of Social Benefit Activities[5]. This law will grant institutions authorization to establish NPO banks as well as authorization to conduct NPO bank services. Banks will be able to obtain authorization to conduct NPO bank services. Institutions receiving authorization are expected to be eligible for financial support, tax breaks, and other benefits after receiving authorization from the appropriate government body.

(2) Development of NPO Banks and Diversification of Community Investment Methods

As has been described in this chapter, compared with citizen's funds, progression in the establishment of NPO banks is still currently insufficient. However, several small- to medium-sized companies tend to prefer indirect financing to citizen's funds due to issues such as the asymmetric information and the costs of establishing funds. Therefore, we feel that NPO banks, often seen as "community invigoration committees," should be able to play a unique role in the field of community investment.

Specifically, it can be anticipated that the scale of NPO banks will grow if (1) more institutions that will establish NPO banks appear and if the establishment of new banks is promoted and if (2) the organizational capacity of NPO banks is strengthened through the acquisition of investments and quality human resources.

Once this is accomplished, it will be important for NPO banks to expand the range of their financial services. Currently, it is common for both NPO banks and standard financial institutions to finance social ventures in the form of unsecured loans (co-signers are required in certain cases) that tend to be limited to the range of several million yen. If the scale of NPO banks increases, they will also be able to raise amount of financing they can provide per case, thus allowing these banks to offer support on a case-by-case basis dependent on the level of growth of the organization being financed. Further, a larger scale would enable NPO banks to introduce systems for providing loans backed by personal assets, such as real estate or inventories, advance into the field of citizen's funds, and implement other initiatives

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4 This law ranks banks on their response to the credit needs of the community based on multi-faceted grading systems. Banks that score poorly may be subject to penalties such as inability to reserve authorization to perform acquisitions or mergers or establish new branches.

5 First draft of the Act on Non-Profit Financial Businesses that Promote the Funding of Social Benefit Activities: http://www.c-poli.org/pdfs/hi_eiri_kin-yu_itiji.pdf (Japanese only)

to respond to a wider range of capital needs.

In addition, if NPO banks were to gain strength in these manners, it would expand the range of possibilities for these organizations to engage in cooperative ventures with mainstream financial institutions and citizen's funds. For example, Citizen's Bank, established in 1989, began conducting hands-on support together with financial institutions, starting from the writing of "My Dream" essays, even before the coining of the term "social enterprise" in Japan. This organization's ability to successfully fund the launch of new enterprises in cooperation with financial institutions using citizens' capital was particularly revolutionary at the time[6].

One future possibility would be the use of borrowings that can be clearly recognized as capital (capital borrowings). On November 22, 2011, the Financial Services Agency released a Q&A style document to clarify how to properly utilize its Financial Inspection Manual, which encourages the active use of capital borrowings[7]. Borrowings that meet certain criteria can be recorded as capital on the balance sheets, thus enabling borrowers to improve their equity ratios, subsequently making it easier for financial institutions to supply borrowers with capital. As demonstrated by Music Securities' Securite Great East Japan Earthquake relief fund, if the capital of citizen's funds and NPO banks invested in small- to medium-sized businesses in earthquake-struck regions can be recognized as capital, it is easier for banks to finance these businesses.

Looking ahead, it will be an important task in the field of community investment for its main proponents—NPO banks, citizen's funds, and MFIs—to meet the needs of those requiring capital by advancing revolutionary initiatives in cooperation with each other or with mainstream financial institutions.

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[6] Citizen's Bank ceased cooperative funding with financial institutions in April 2009.
For more information, please refer to the organization's website: http://www.p-alt.co.jp/bank/ (Japanese only)

[7] http://www.fsa.go.jp/news/23/ginkou/20111122-4.html (Japanese only)

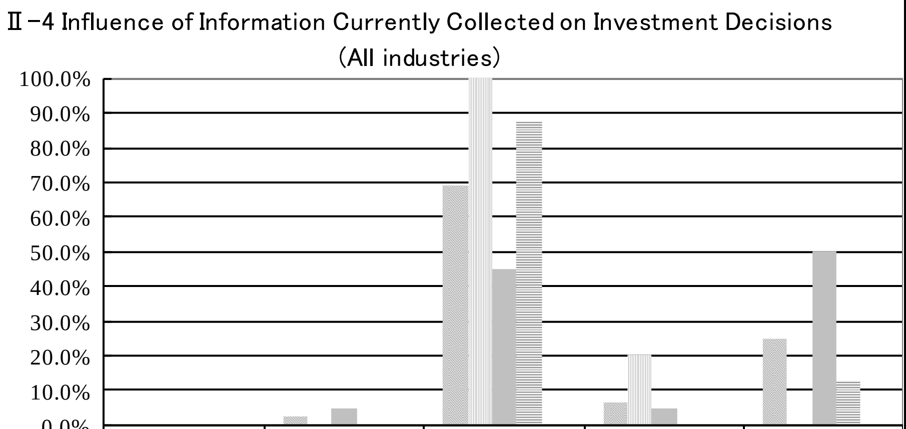
Chapter 5. Environmentally Friendly Real Estate (Green Building)

1. Operating Environment for Environmentally Friendly Real Estate

The recent April 2010 revisions to the Act Concerning the Rational Use of Energy and the Tokyo Metropolitan Environmental Security Ordinance, as well as other legislation revisions, have resulted in a rapid increase in concern for the environmental performance and energy efficiency of buildings among building owners and tenants. This trend has also become apparent in surveys of investor activity as well. CSR Design & Landscape Co., Ltd., a company that conducts consulting regarding environmentally friendly real estate (green building), has been contracted to perform such surveys by the Ministry of Land, Infrastructure, Transport and Tourism, UNEP FI, the Tokyo Metropolitan Government's Bureau of Environment, and other organizations. These surveys have shown that approximately 70% of investors say that environmental performance currently has no influence on the evaluation of real estate. However, approximately 80% of respondents felt that, in the future, environmental performance will be an essential factor to be considered, owing primarily to the effect on capitalization rates and the possibility of buildings that do not meet certain standards for environmental performance being turned down as non-eligible asset for investment. This trend is projected to strengthen further due to the influence of the 15% mandated cut in electricity usage instituted in Japan from summer 2011.

Figure 5-1-1 Hearing on Investment in Real Estate, Energy Efficiency of Buildings, etc. Results (1)

Respondents stating that environmental information currently do not influence investment decisions: 70%



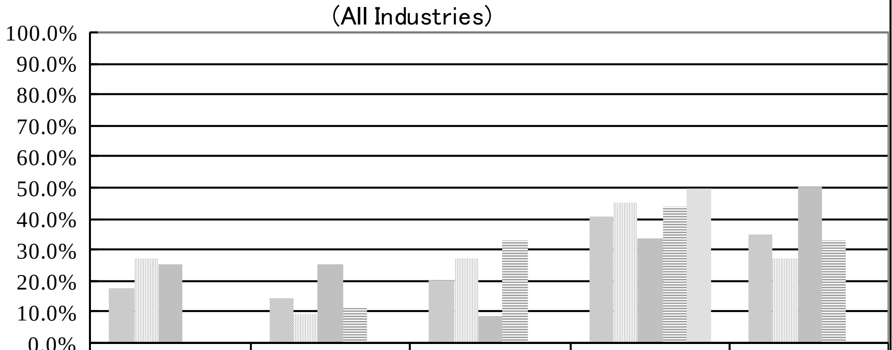
	+0.2 based on capitalization rate	+0.1 based on capitalization rate	No influence	Turn down investment if conditions are not met	Other
All industries	0.0%	2.1%	68.8%	6.3%	25.0%
Developers	0.0%	0.0%	100.0%	20.0%	0.0%
Private investment funds	0.0%	5.0%	45.0%	5.0%	50.0%
REIT management companies	0.0%	0.0%	87.5%	0.0%	12.5%
Indivisuals/Small to medium-sized companies	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Hearing on Investment in Real Estate, Energy Efficiency of Buildings, etc., and Hearing Survey for Tokyo Metropolitan Government's Bureau of Environment (March 2011)

Figure 5-1-2. Hearing on Investment in Real Estate, Energy Efficiency of Buildings, etc. Results (2)

Respondents answering "turn down investment if conditions are not met" or other responses that suggest environmental information may influence future investment decisions: 80%

Ⅱ−9 Influence of Information Viable for the FUture on Investment Decisions (All Industries)



	+0.2 based on capitalization rate	+0.1 based on capitalization rate	No influence	Turn down investment if conditions are not met	Other
All industries	17.6%	14.7%	20.6%	41.2%	35.3%
Developers	27.3%	9.1%	27.3%	45.5%	27.3%
Private investment funds	25.0%	25.0%	8.3%	33.3%	50.0%
REIT management companies	0.0%	11.1%	33.3%	44.4%	33.3%
Indivisuals/Small to medium-sized companies	0.0%	0.0%	0.0%	50.0%	0.0%

Source: Hearing on Investment in Real Estate, Energy Efficiency of Buildings, etc., and Hearing Survey for Tokyo metropolitan Government's Bureau of Environment (March 2011)

2. Performance Evaluation and Tenants' New Standards for Selecting Buildings

When evaluating the possibility of investment into environmentally friendly real estate, or a so called green building, the issue most considered is whether or not there will be quantitative economic benefits that can be transformed into profit including if the investment will allow higher rent to be collected, raise occupancy rates, help obtain new lease contracts, or improve retaining rate of existing tenants.

Research regarding the effects of transforming a building into a green building on the building's energy efficiency, level of rents, and occupancy rates has continued to be advanced, with the most notable progress seen in the United States. Much of this research indicates that there are certain benefits for improving rent fees and occupancy rates associated with such transformations, while some argue that these statistics are not significant enough. By continuing such research, viable samples should be accumulated in the long run. However, at this moment, it is necessary to accept the skeptical opinions about the reliability of evaluations of the economic benefits of green buildings.

Yet, there are signs of changing trends in the criteria that tenants apply when selecting buildings to occupy, particularly with regard to active global companies. Among international blue chip companies included in the Dow Jones Sustainability Indexes (DJSI), an increasing number of companies are moving toward requiring all of their business-use real estate, including office space, to meet certain environmental performance requirements, regardless of where in the world a site may be located. Factors contributing to this movement have been cited as its benefits in making the company's social responsibility initiatives addressing global warming and other climate change risks more apparent as well as its benefits in advancing ESG branding efforts and in conducting effective investor relations activities. Other factors include the enhanced productivity, such as reinforcing a consensus regarding corporate policies and philosophies between employees around the world with different languages and cultures, helping a company secure superior human resources through the provision of a productive work environment, and contributing to lower illness-related absences.

Table 5-2-1. LEED-Certified Buildings in Japan

	Project	Classification	Location	LEED system	Certification level
1	Accenture Japan Minato Mirai Project	Office	Yokohama	LEED CI 2.0 (for commercial interiors)	Certified
2	Azabu Gardens Phase 1	Residenti al	Tokyo	LEED NC 2.2 (for new construction)	Certified
3	Barclays Services Japan	Office	Tokyo	LEED-CI v2009 (for commercial interiors)	Gold
4	Blackrock MTTM Project Japan	Office	Tokyo	LEED CI 2.0 (for commercial interiors)	Gold
5	Bloomberg Tokyo	Office	Tokyo	LEED CI 2.0 (for commercial interiors)	Gold
6	Bovis Lend Lease Japan	Office	Tokyo	LEED CI 2.0 (for commercial interiors)	Certified
7	Citibank Aoyama Branch Relocation	Financial institution	Tokyo	LEED CI 2.0 (for commercial interiors)	Gold
8	Citibank Nagoya Branch	Financial institution	Tokyo	LEED-CI v2009 (for commercial interiors)	Gold
9	Citibank Nihonbashi Branch	Financial institution	Tokyo	LEED-CI v2009 (for commercial interiors)	Gold
10	Citibank Tokyo Ekimae Branch	Financial institution	Tokyo	LEED-CI v2009 (for commercial interiors)	Gold
11	Citigroup Tennozu Isle CGC 4F Call Center	Financial institution	Tokyo	LEED CI 2.0 (for commercial interiors)	Silver
12	NTT Facilities Head Office	Office	Tokyo	LEED-CI v2009 (for commercial interiors)	Silver
13	Iino Lines Head Office	Office	Tokyo	LEED-CI v2009 (for commercial interiors)	Platinum
14	Starbucks Kyoto Research Park	Retail store	Kyoto	LEED Retail (CI)1.0 Pilots Only(for commercial	Silver
15	Starbucks Ohori Park	Retail store	Fukuoka	LEED Retail (NC)1.0 Pilots Only(for new	Certified
16	Starbucks Jingumae 4chome	Retail store	Tokyo	LEED Retail (CI)1.0 Pilots Only(for commercial	Certified

Source: Prepared by CSR Design & Landscape Co., Ltd., based on information available on the U.S. Green Building Council's website

The Great East Japan Earthquake, which occurred on March 11, 2011, resulted in a shift in the prioritization of criteria examined when choosing a building. This is represented in the increased emphasis placed on such features as earthquake resistance, business continuity plans (BCPs), emergency power supplies, and energy efficiency. Meanwhile, real estate owners as well are shifting their focus in response to changes in the tenant tendencies, such as the rise in drive to conserve energy.

Some owners are working to differentiate their buildings through the installation of systems that offer detailed energy-usage statistics to make this information more accessible. Also, an increasing number of new buildings are being constructed with the aim of attracting prime tenants, particularly foreign companies by acquiring certification under Japanese Comprehensive Assessment System for Built Environment Efficiency (CASBEE) environmental performance evaluation system and the Leadership in Energy and Environmental Design (LEED) evaluation system created by the U.S. Green Building Council, which is gaining attention around the world. Separate from the process of evaluating the economic benefits of these initiatives, the market for environmentally friendly real estate (green building) is actually growing at a rather rapid pace.

3. Development of New Environmental Performance Evaluation Systems

Currently, the CASBEE for Market Promotion tool, an evaluation tool for the environmental performance of individual buildings, is being developed in coordination with the UNEP FI Property Working Group (PWG). Scheduled for a summer 2012 launch, this use of tool is anticipated to become standard practice in real estate transactions. Banks are also bringing building environmental performance evaluations within the scope of their business operations, examples of which include the DBJ Green Building Certification system released by the Development Bank of Japan in April 2011 and the SMBC Sustainable Building Assessment Loan system launched by Sumitomo Mitsui Banking Corporation in October 2011.

4. Projected Future Developments

As has been stated up to this point, the operating environment for green buildings has been flourishing with activity, such as the establishment of various environmental performance evaluation systems, benchmarks, and *de-facto* standards. We project that the speed at which rules and standards are developed and disseminated throughout the market will be much faster than many anticipated. This was based on the fact that the ASTM E2797-2011—Building Energy Performance Assessment (BEPA) Standard—was released by the American Society for Testing and Materials (ASTM) in February 2011, in addition to the Global Real Estate Sustainability Benchmark (GRESB). It can be expected that the future inclusion of energy efficiency as an item in engineering reports, which must be submitted as part of the process of real estate securitization (financial instruments), will greatly impact the market. Also, changes in financial business practices will likely increase the importance of environmental performance (green building) in real estate investment.

Needless to say, changes in the standards tenants use in choosing buildings will have the greatest effect on the investment decisions of real estate investors. If shifts in demand become apparent, suppliers like developers and general contractors will consequently be forced to respond.

Up until now, the promotion of environmentally friendly real estate (green building) has largely been going round in circles, as many organizations have been expressing support for the movement but no one has been stepping up to assume a leadership role. Recently, spurred on by the increased presence of worldwide environmental regulations, this monumental movement seems finally to be advancing. We anticipate that, once this movement gets rolling, it will quickly gain momentum due to the sheer scale of the endeavor.

Chapter 6. CSR Initiatives by Japanese Financial Institutions

1. Introduction

In this chapter, we will investigate recent trends in the CSR initiatives of Japanese financial institutions, particularly looking at their participation in various initiatives. In addition to participation in international initiatives, such the United Nations' PRI and Global Compact initiatives, the chapter will also offer an overview of the *Principles for Financial Action towards a Sustainable Society (Principles for Financial Action for the 21st Century)*, Japan's own initiative that was launched in October 2011.

Later, we will exhibit some examples of financial institutions in Japan that offered support to the reconstruction effort following the Great East Japan Earthquake. This disaster, which occurred on March 11, 2011, caused unprecedented damages to Japan and became an important issue for discussions regarding CSR.

2. Participation of Japanese Financial Institutions in International Initiatives

Table 6-2-1 compiles a list of Japanese financial institutions participating in major international initiatives. The most notable change since the previous edition of this report, 2009 Review of Social Responsible Investment in Japan, was the rise in participation in the United Nations' PRI initiative. Raising the presence of the initiative in Japan was the new addition of major investment managers Nomura Asset Management Co., Ltd., Sumitomo Mitsui Asset Management Company, Limited, and Tokio Marine Asset Management Co., Ltd.. In addition, on October 1, 2011, Ark Alternative Advisors Co., Ltd., a company that works as a service partner for private equity funds and serves as a placement agent for them, became a signatory to the initiative, making it the first Japanese company specializing in private equity to join. We anticipate that this move will help advance ESG-related initiatives in the private equity investment field.

Signatories to the United Nations Global Compact also increased, from 9 to 12, whereas signatories to the Carbon Disclosure Project (CDP) fell from 23 in 2009 to 21 in February 2011.

Table 6-2-1. Status of Japanese Financial Institution Participation in International Initiatives

PRI	Asset owners	Kikkoman Corporation Pension Scheme, Secom Pension Fund, Sompo Japan Insurance Inc., Taiyo Life Insurance Company, Fuji Pension Fund
	Investment managers	The Sumitomo Trust and Banking Co., Ltd., Daiwa Asset Management Co., Ltd., Mitsui Asset Trust and Banking Co., Ltd., Tokio Marine Asset Management Co., Ltd., Nikko Asset Management Co., Ltd., Nissay Asset Management Corporation, Nomura Asset Management Co., Ltd., Mizuho Trust & Banking Co., Ltd., Sumitomo Mitsui Asset Management, Mitsubishi UFJ Trust and Banking Corporation, Resona Bank Limited
	Service partners	Ark Alternative Advisors Co., Ltd.[1], Integrex Inc., The Good Bankers Co., Ltd..

[1] Became signatory on October 1, 2011

Equator Principles	Mizuho Corporate Bank, Ltd., Sumitomo Mitsui Banking Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd.
UNEP FI[2]	SMBC Nikko Securities Inc., Aioi Nissay Dowa Insurance Company Ltd., The Good Bankers Co., Ltd., Japan Bank For International Cooperation, The Shiga Bank, Ltd., The Sumitomo Trust and Banking Co., Ltd., Sompo Japan Insurance Inc., Daiwa Securities Group Inc., The Chiba Bank, Ltd., Chuo Mitsui Trust Group, Tokio Marine & Nichido Fire Insurance Co., Ltd., Nikko Asset Management Co., Ltd., Development Bank of Japan Inc., Nipponkoa Insurance Co., Ltd., Mizuho Financial Group, Inc., Mitsui Sumitomo Insurance Co., Ltd., Sumitomo Mitsui Financial Group, Inc., The Bank of Tokyo-Mitsubishi UFJ, Ltd., Mitsubishi UFJ Trust and Banking Corporation
CDP (As of February 2011)	SMBC Friend Securities Co., Ltd., The Shiga Bank, Ltd., Shinkin Asset Management Co., Ltd., The Sumitomo Trust & Banking Co., Ltd., Sompo Japan Insurance Inc., Daiwa Securities Group Inc., Tokio Marine & Nichido Fire Insurance Co., Ltd., Nikko Asset Management Co., Ltd., Nikko Cordial Securities Inc., Nissay Asset Management Corporation, Development Bank of Japan Inc., The Japan Research Institute, Limited, Fukoku Capital Management, Inc., Mizuho Financial Group, Inc., Sumitomo Mitsui Card Company, Limited, Sumitomo Mitsui Banking Corporation, Sumitomo Mitsui Finance & Leasing Co., Ltd., Sumitomo Mitsui Financial Group, Mitsubishi UFJ Financial Group, Meiji Yasuda Life Insurance Company, Resona Bank, Limited
Global Compact	MS&AD Insurance Group Holdings, Inc., The Sumitomo Trust & Banking Co., Ltd., SUMITOMO LIFE INSURANCE COMPANY, Sompo Japan Insurance Inc., Daiwa Securities Group Inc., Tokio Marine Holdings, Inc., Tokio Marine & Nichido Fire Insurance Co., Ltd., Nipponkoa Insurance Co., Ltd., Mizuho Financial Group, Inc., Sumitomo Mitsui Financial Group, MITSUI LIFE INSURANCE COMPANY LIMITED, Mitsubishi UFJ Financial Group, Resona Holdings, Inc.

* Some non-financial institutions, such as research institutions, are included.

* Highlighted organizations are those that were newly added following the publication of 2009 Review of Social Responsible Investment in Japan.

Source: Prepared by authors based on information available on each initiative's website

3. Overview of the *Principles for Financial Action towards a Sustainable Society (Principles for Financial Action for the 21st Century)*

In September 2009, the Ministry of the Environment established the Committee on Finance and the Environment, which consists of experts in relevant fields. The committee filed a report in June 2010, entitled *The relationship between environment and finance –The new financial role toward a low carbon society*[3], that proposed the establishment of environmental finance (environmentally friendly finance) principles for Japan as a means of expanding systems for environmental finance initiatives. This led to the establishment of the *Japanese Version of Environmental Finance Principal* (tentative title).

The report defines environmental finance as (a) financing in which funds are directly used for businesses that reduce environmental impacts or (b) financing that entails evaluating and

2 UNEP Finance Initiative
3 http://www.env.go.jp/council/02policy/r0211-01b.pdf (Japanese only)

supporting the activities of companies acting in an environmentally considerate manner, thus encouraging such activities. SRI would be an example of the latter (b).

The committee has identified the following three benefits of developing environmental finance principles specifically for Japan.

- Discussions regarding environmental finance can be facilitated based on the actual circumstances in Japan while taking into account global trends.
- The development of a single foundation for the entire financial industry, as opposed to developing individual foundations for different types of finance (institutional investment, project finance, etc.), will lead to the creation of opportunities to promote environmental finance initiatives as a whole throughout Japan.
- Small-scale regional financial institutions that are unable to fully adopt global principles will be able to advance environmental finance initiatives using the Japanese principles.

A drafting committee has been assembled through voluntary participation by financial institutions that endorse this measure with Takejiro Sueyoshi, Special Advisor to the UNEP Finance Initiative, as its original promoter. In October 2011, after approximately one year of deliberation, the *Principles for Financial Action towards a Sustainable Society (Principles for Financial Action for the 21st Century)*[4] were formulated along with three specific guidelines for different areas of financing (fund management, securities, and investment banking; insurance; and commercial banking, lending, and leases)[5].

The Principles take into account ESG factors but place a particular focus on the environment, as considering the full scope of ESG issues could impede the participation of small- to medium-sized regional financial institutions.

Applications for signatory institutions began accepted in November 2011. As, throughout the formulation process, steps were taken to make it easier for small- to medium-sized regional financial institutions to participate, a large number of institutions are anticipated to become signatories. It is expected that the initiative will serve as a foundation for promoting communications with stakeholders and other efforts of signatories targeting the development of a sustainable society while also encouraging these institutions to participate in various international initiatives.

Table 6-3-1. Principles for Financial Action towards a Sustainable Society

1. We will recognize our roles and responsibilities, taking into account the precautionary approach, and promote those actions that contribute towards shaping a sustainable society. 2. 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

[4] http://www.env.go.jp/press/file_view.php?serial=18559&hou_id=14289

[5] Fund management, securities, and investment banking guidelines:
http://www.env.go.jp/press/file_view.php?serial=18362&hou_id=14289 (Japanese only)
Insurance guidelines: http://www.env.go.jp/press/file_view.php?serial=18363&hou_id=14289 (Japanese only)
Depositing, lending, and leases: http://www.env.go.jp/press/file_view.php?serial=18364&hou_id=14289 (Japanese only)

environmental technologies and services sector.
3. From the perspective of regional development and improvement in sustainability performance, we assist the environmental programmes 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 normal duties.

Source: Prepared by authors based on information available on the Ministry of the Environment's website

4. Support for Post-Great East Japan Earthquake Restoration through Financial Products

The Great East Japan Earthquake, which occurred on March 11, 2011, caused unprecedented damages to Japan, shocking people around the world and causing many Japanese to redefine their sense of values. It also generated a sense of solidarity throughout Japan and served as an opportunity to reevaluate the role of charitable practices and finance in society. Many financial institutions have begun utilizing financial schemes to support the restoration effort following this momentous disaster. These schemes come in various forms, including both direct and indirect financing. While we looked at some examples of community investment by NPO banks and other organizations in chapter 4, here we look at some examples of publically offered investment trusts for private investors.

Several new funds appeared after the earthquake. These funds can largely be divided into two groups: (a) those that invest in the bonds of the Japanese government or earthquake-affected municipal governments or in the stock of companies playing a significant role in the restoration effort and (b) those that donate a portion of trust fees or purchase processing fees to affected municipal governments or the Japanese Red Cross Society. Table 6-4-1 details some examples of such funds. It could be said that the funds with included donations from group (b) are employing cause-related marketing (CRM). In the majority of funds that donate a portion of trust fees, the actual act of donation is conducted by the settlor company. However, there are also cases in which a portion of the returns attributable to the settlor company, trustee company, and the sales company are donated, with the consent of all concern parties.

Table 6-4-1. Major Post-Disaster Restoration Support Funds

Nomura Asset Management: Great East Japan Earthquake Restoration Support Bond Fund 1105

Invests in the bonds of the Japanese government as well as those of public organizations, municipal governments, and companies thought to contribute to the restoration effort

Donates an amount equivalent to approximately 0.2% of net asset value at annual rate from trust fee to earthquake-affected municipal governments

Shinkin Asset Management: Shinkin Restoration Scholarship Support Fund "Children's Future Fund"

Invests primarily in government bonds and stocks of companies, which both play a large role in supporting the restoration effort

Donates an amount equivalent to approximately 0.225% of net asset value at annual rate from trust fee to ASHINAGA (to fund for Great East Japan Earthquake and tsunami orphans) and other organizations to support the educations and lives of children orphaned by the earthquake

Daiwa Asset Management: Daiwa Japan Support Fund Vol.3—Phoenix Japan—

Daiwa Securities Co., Ltd.. (sales company), donates an amount equivalent to approximately 0.36% of net asset value at annual rate from trust fee to support earthquake-affected regions

Okasan Asset Management: Mito Securities Asia/Oceania Bond Open Fund (with Donation)

Mito Securities Co., Ltd.. (sales company), donates one-third of processing fee at time of purchase from initial purchase period to funds, etc. that support post-earthquake restoration
Settlor company donates an amount equivalent to approximately 0.15% of net asset value at annual rate from trust fee to funds, etc. that support post-earthquake restoration

Mitsubishi UFJ Asset Management: Japan Support Fund (Japanese Stock) "Smile Japan"

Will donate an amount equivalent to approximately 0.46% of net asset value at annual rate from trust fee to support post-earthquake restoration for the first two years after establishment of the fund

Nikko Asset Management: Japan Public Bond Fund 2020 "Home Land Journey 2020"

Will utilize 100% of the management fee of the fund (established prior to the earthquake) and 50% of the management of certain other Japanese stock funds operated by the same company until March 2012 to participate in non-standard child support programs and implement other initiatives for children in affected regions

Source: Prepared by authors based on information available on the websites of each settlor company and sales company

These funds have been judged as not meeting the SIFJapan's definition of SRI investment trusts (see Supplemental Material 2). Regardless, the desires of private investors to use their money to contribute to the restoration efforts are being transmitted through these funds to support restoration.

In Closing

1. New Initiatives in this Edition

This report, 2011 Review of Social Responsible Investment in Japan, is the third edition in this series of reports. It follows the new developments in the field of SRI that occurred since the publication of the previous report in 2009.

In this edition, we newly included a section analyzing the impact investment trend relating to bonds in the Trends in Retail SRI Financial Products chapter. Information on environmentally friendly real estate was placed in a separate chapter. Another new addition was the special contribution from the Japanese Trade Union Confederation (RENGO) on its *Guidelines on Responsible Investment of Workers' Capital*, which are expected to greatly influence the spread of SRI throughout pension fund market. Also, SIF-Japan members held hearings with four pension funds and one research organization to establish a clear view of the SRI trend in the pension fund market, another new initiative.

2. Overview of the SRI Market for Private Investors

Over the past two years, the SRI market in Japan has suffered the impacts of the long-term stagnation of the Japanese stock market, the most notable evidence of which would be the contraction of the market for publicly offered SRI investment trusts. The total net assets of these trusts peaked in October 2007 at ¥1,243.9 billion, but later declined rapidly, coming to total ¥325.2 billion on September 31, 2011, 74% lower than the peak value.

However, there have still been developments that warrant attention. Among these developments are the appearances of (1) funds that operate based on green economy-related themes or invest in green bonds, (2) funds that invest in environment-related companies in rapidly growing regions such as China and other parts of Asia, (3) funds that base investment evaluations on a company's biodiversity initiatives, and (4) funds that finance microfinance institutions. These funds all represent efforts to preemptively respond future trends.

Another positive development would be the rapid expansion of the market for bonds based on themes such as social contribution and addressing poverty and climate change issues (impact investment bonds). Over the period from 2008 to the end of 2011, total sales of these bonds reached a startling ¥540.0 billion.

Also, following the Great East Japan Earthquake, which occurred on March 11, 2011, there was a surge in community investment and donation activities to support economic restoration. This demonstrates the progress in the dissemination among individual investors of a mindset calling for consideration of how one's money is used. These developments are important factors to consider when predicting future trends in the SRI market.

3. Overview of the SRI Market for Institutional Investors

The difference between the SRI market of Japan and those of Europe and the United States has been attributed to the lack of influence of SRI principles on the markets for public and corporate pension plans. Unfortunately, there has been no notable progress in this area. However, we are very glad to report on the influence of the *Guidelines on Responsible Investment of Workers' Capital* released by RENGO in December 2010, which are covered in more depth in the special contribution section from RENGO. Just as the OECD has encouraged the GPIF（Government Pension Investment Fund）, the world's largest public pension fund, to become a signatory to socially responsible investment principles, we will encourage readers to take these guidelines as an important development in the Japanese pension fund market.

In terms of trends in the activism of shareholders, there were no significant developments in relation to shareholders' proposals based on ESG factors. One instance that drew a great deal of attention was the General Meeting of Shareholders of the Tokyo Electric Power Company, Incorporated (TEPCO), which was responsible for the devastating accident at the Fukushima Daiichi Nuclear Power Plant. While the agenda proposed by this company were approved as intended at this meeting, it did raise questions, however, about the fundamental responsibilities of a company's shareholders.

4. Community Investment and Environmentally Friendly Real Estate

The community investment market in Japan is still in its infancy, and its size is quite small accordingly. The total outstanding loans of NPO banks that operate targeting socially active companies fall short of ¥300.0 million. However, the flow of capital in this area is growing more diverse. Also, a number of new initiatives have begun to appear in this field, including citizen-operated funds and funds that finance microfinance institutions and post-earthquake reconstruction.

In the area of environmentally friendly real estate, international initiatives, such as those implemented by the UNEP FI Property Working Group (PWG), have paved the way for progress. In Japan was well, there has been a full-fledged movement toward evaluating real estate based on environmental factors, as evidenced by the certification systems for green buildings and the environmentally friendly building evaluation systems developed by individual financial institutions. While these domestic movements are being advanced following international movements, there is still a great deal of potential concealed within the trend of consideration for the realization of a low-carbon society.

5. Financial Institutions and CSR

A notable development in the CSR initiatives of Japan's financial institutions would be the official launch of the *Principles for Financial Action towards a Sustainable Society (Principles for Financial Action for the 21st Century)* in November 2011 and the subsequent start of signatory application acceptance. What makes this development so significant is the fact that it is a privately driven initiative. This represents a departure from the traditional norms of the Japan's financial industry in which new initiatives were primarily authority driven. For these reasons, we are keeping our eyes on this trend.

6. Conclusion

It is worthy of mention that, in relation to the nuclear power station incidents, there were a number of disparaging opinions regarding the investment of shares in TEPCO and other electricity companies by several Japanese SRI investment trusts. It has traditionally been a characteristic of socially responsible fund management in Japan not to use the negative screening methods that are common in Europe and the United States. However, it is still unfortunate that this issue did not inspire debate on the appropriateness of government energy policies and investment in nuclear power from an SRI perspective.

Over the past two years, the progress in the quantitative expansion of the SRI market in Japan has not been significant. However, there were a number of notable new trends that appeared, such as private investors shifting their attention to impact investment bonds. Other qualitative changes included the appearance of citizen-operated funds that supported post-earthquake restoration. These and other new trends show that the Japanese SRI market is becoming more innovative and diverse, bringing hope for the future of this market.

Toshiaki Yamamoto
Committee Member, Social Investment Forum-Japan

Authors' Biographies

Chapter 1. Trends in Retail SRI Financial Products

Toshitaka Saotome: [Mr.] Saotome works for Nomura Asset Management, Asset Management Research Department as a Senior Manager focusing on market trends of asset management and regulatory trends in financial markets. He wrote many reports for various publications and teaches investment educations at some universities. After his graduation from Keio University, Faculty of Science and Technology, he started his career at Nikko Securities, and subsequently developed his career both at Nikko Asset Management and Tokyo Mitsubishi Asset Management as a person in charge of product development and marketing. He has been at the current position since April 2005.

Satoru Yamamoto: [Mr.] Yamamoto currently serves as the Director / Head of Planning, of the Product Planning Department at Daiwa Securities. He joined Daiwa Securities in 1998, and was assigned to the Product Planning Department in 2001, where his work focused on fixed income primary products, mainly Uridashi / Samurai, for retail investors. Over the years, he has been placed in charge of a number of different bonds including IFFIm vaccine bonds, World Bank CO2L Bonds, World Bank Green Bonds, Asian Development Bank Water Bonds, European Investment Bank Climate Awareness Bonds, Inter-America Development Bank Poverty Reduction Bonds, and African Development Bank Education Bonds. In November 2009, he worked in cooperation with International Finance Corporation to launch Japan's first microfinance bonds and played a key role in the development and promotion of the Daiwa Microfinance Fund, which was established in March 2011. [Mr.] Yamamoto has been named a Young Global Leader for 2012 by the World Economic Forum. In regard to his education, [Mr.] Yamamoto graduated from the Faculty of Economics at Keio University and has received an MBA from University of California, Berkeley of the United States.

Chapter 2. Pension Funds and SRI

Tsukasa Kanai: [Mr.] Kanai joined The Sumitomo Trust and Banking Co. in 1983. After experiencing such posts as one in the Pension Investment Department, [Mr.] Kanai was appointed to the Head Office Executive of Corporate Social Responsibility Office in Corporate Planning Department. He has managed all elements of the Sumitomo Mitsui Trust Group's CSR activities and also, in 2003, held in the position of leader of The Sumitomo Trust and Banking Co.'s SRI Development Team. Currently, he is a member of a committee for addressing the Principles for Financial Action towards a Sustainable Society released by the Ministry of the Environment of Japan and the steering committee of the Multi-stakeholder Forum on Social Responsibility for a Sustainable Future. Major works co-written by [Mr.] Kanai included *CSR Management and SRI* and *All About Strategic Pension Management*, both of which were published by Kinzai.

Hitoshi Takezume: After graduating from the Faculty of Economics at Keio University, [Mr.] Takezume joined The Tokyo Electric Power Company in 1991. In 2001, he began working full-time for the company's labor union, and in 2003 he began working full-time for The Federation of Electric Power Related Industry Worker's Unions of Japan (DENRYOKU SOREN). From April 2005 to May 2008, he was dispatched by DENRYOKU SOREN to work with the Japanese Ministry of Foreign Affairs, serving in the Embassy of Japan in Thailand as a first secretary. In Thailand, he supported the efforts of NGOs and municipal governments, such as offering relief to regions damaged by tsunamis, providing aid to Burmese refugees, and removing landmines, as part of Japan's official development assistance (ODA) initiatives. In June 2008, he was dispatched to work with RENGO. Stationed in RENGO's Welfare Policy Division, he was responsible for pensions, public welfare, and other elements of social security systems. In October 2011, he assumed his current position in RENGO's International Division. Moreover, he worked in the Workers' Capital PT Office starting from December 2009, and played a role in the development of the *Guidelines on Responsible Investment of Workers' Capital*, which were released by RENGO in December 2010.

Yoko Monoe: [Ms.] Monoe currently works for Daiwa Institute of Research and is a committee member of Social Investment Forum-Japan. She majored in international relations at Waseda University and acquired a master's degree. She developed her career at an environmental consulting firm and subsequently European governmental organization after her graduation, and has been with Daiwa Institute of Research since 2008.

Mari Kamei: [Mrs./Ms.] Kamei is a committee member of Social Investment Forum-Japan. In 2008, she graduated from Keio University's Faculty of Policy Management. Over the years, she has conducted research in such areas as financial engineering, environmental issues, social entrepreneurship, and socially responsible investment. She was a representative of the student group of Social Investment Forum Japan and now became a committee member of the forum. She currently works as a Japanese equity analyst at a Japanese asset management company.

Chapter 3. Shareholder Advocacy

Minako Takaba: [Mrs./Ms.] Takaba is a Tokyo-based analyst that works for MSCI Inc. in their ESG research division. She primarily conducts ESG evaluations for socially responsible investors with her main focus on the consumer sector. In 2002, she graduated from Yokohama National University, International Graduate School of Social Science. She started her career as a CSR consultant for an auditing firm and afterward moved to a European mobile phone company as a CSR representative before assuming her current position. She is a committee member of Social Investment Forum Japan.

Akemi Yamasaki: [Ms.] Yamasaki is a committee member of Social Investment Forum Japan. In 1981, she graduated from Hitotsubashi University, Faculty of Law. After graduation, she joined a major Japanese securities firm. Later, she came to work for a research firm as a researcher of corporate governance and ESG, as well as a consultant of SR and IR. She co-wrote many books, reports and articles about corporate governance, proxy voting and SRI/CSR/ESG.

Arisa Kishigami: [Ms.] Kishigami is an Executive in the area of Responsible Investment at the global index provider, FTSE Group. She is responsible for managing engagement with companies around the world based on the standards for inclusion in the FTSE4Good index, the company's principle responsible investment index. She also plays a key role in the development of ESG standards and ESG Rating products. Further, she actively transmits information regarding responsible investment and ESG initiatives in both Japanese and English. Articles she has written include *Why start investing responsibly now?*, which appeared in a monthly Japanese [economic/investment] publication, and *The rising wave of investor/corporate engagement in Japan*, which was a special feature in Responsible Investor. In 2005, she graduated from Keio University's Faculty of Policy Management. In 2006, she acquired a master's degree in African studies from the University of Oxford. Then, in 2007, she entered her current position.

Chapter 4. Community Investing

Shunji Taga: [Mr.] Taga currently works at Japan NPO-BANK Network as a secretary general. He was born in Hiroshima in 1965. He was engaged in the 1994 establishment of Mirai Bank that 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, [Mr.] Taga has continued to strive daily to further advance the development of NPO banks and social finance.

Masaru Murakami: [Mr.] Murakami is a certified public accounting and an M&A advisor capable of offering advice in regard to due diligence for buyers and sellers, evaluations, rehabilitation, match making, negotiations, post-acquisition protocol, MBO, debt equity swaps, and DCF valuation of debt. He was born in 1963 and graduated from the School of Political Science and Economics at Waseda University in March 1986. While attending university, he came to be greatly inspired by historical Japanese reformist Ryoma Sakamoto. Hoping to make contributions to Japanese society that were are great as the alliance Ryoma formed between Satsuma and Choshu, [Mr.] Murakami quickly set his sights on becoming a certified public accountant. He joined an accounting firm in October 1986, and has since served as an advisor for a number of M&A transactions. From 1992 to 1994, he was stationed at the British M&A division of a business partner. From 1998 to 1999, he was a member of the Ministry of Economics, Trade and Industry's Bankruptcy Law Development Committee, and participated in discussions that later formed the basis for the Civil Rehabilitation Act (DIP, automatic stay, M&As before confirmation approval, etc.). Major works written by [Mr.] Murakami either individually or jointly include *The New Frontier of CPA Work: The Role of M&As and CPAs* (included in a collection of 40 essay released by The Japanese Institute of Certified Public Accountants), *Introduction to MBO* (Toyo Keizai), *Corporate Rehabilitation* (Kinzai), *Conducting Legal Bankruptcy* (Kinzai), *Guidelines for Evaluating Corporate Value* (The Japanese Institute of Certified Public Accountants), and *The Business Handbook for Intellectual Properties* (Nikkei Business Publications).

Chapter 5. Environmentally Friendly Real Estate (Green Building)

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 US securities companies, [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 is his current position since. He is a member of Social Investment Forum-Japan, and is also a member of the CASBEE and Real Estate Evaluation Committee.

Chapter 6. CSR Initiatives by Japanese Financial Institutions

Masaru Otake: [Mr.] Otake is a member of Social Investment Forum-Japan and works at a financial information vendor. 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, and received a master's degree in environmental studies. His fields of research included environmental finance and SRI.

Supplemental Material 1: Data & Chart on the Japanese SRI market

Publicly offered SRI investment trust data is displayed in accordance with the *SRI-Japan's SRI Investment Standards* on the following page. Further, beginning with the 2009 issue of this review, we have included data for defined-contribution pension funds dating back to their establishment.

*Data is compiled by SIF-Japan and has been collected from asset management companies, such as Morningstar Japan K.K., or from companies' websites. Up-to-date data is available on SIF-Japan's website.

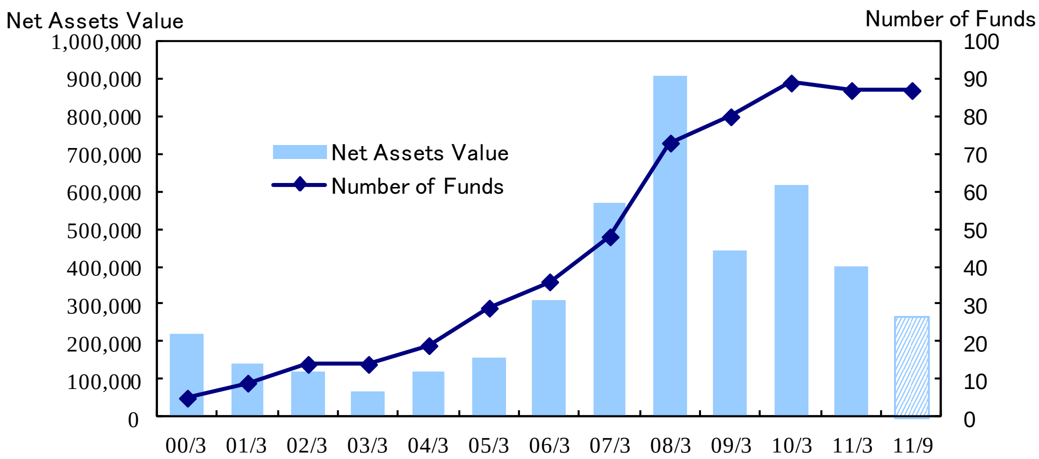
The Historical Data on Publicly Offered SRI Investment Trusts

(JPY million)

Date	Number of Funds	Net Assets Value
1999/ 9	2	67,293
1999/12	4	189,731
2000/3	5	220,668
2000/6	5	186,002
2000/9	6	163,252
2000/12	9	149,618
2001/3	9	139,392
2001/6	11	156,114
2001/9	11	130,869
2001/12	14	130,556
2002/3	14	122,318
2002/6	14	107,552
2002/9	14	89,610
2002/12	14	75,498
2003/3	14	65,247
2003/6	14	68,706
2003/9	14	71,623
2003/12	16	86,684
2004/3	19	118,963
2004/6	22	179,834
2004/9	25	180,684
2004/12	26	169,755
2005/3	29	158,727
2005/6	30	148,656
2005/9	31	153,388

Date	Number of Funds	Net Assets Value
2005/12	33	202,852
2006/3	36	308,426
2006/6	40	340,003
2006/9	42	363,270
2006/12	45	469,850
2007/3	48	568,190
2007/6	49	704,229
2007/9	63	986,017
2007/12	70	1,157,428
2008/3	73	906,327
2008/6	79	959,540
2008/9	77	695,950
2008/12	79	485,767
2009/3	80	443,197
2009/6	82	564,086
2009/9	85	583,629
2009/12	85	640,531
2010/3	89	615,127
2010/6	90	468,674
2010/9	87	451,385
2010/12	86	408,051
2011/3	87	399,900
2011/6	87	348,536
2011/9	87	267,356

Trends of Publicly Offered SRI Investment Trusts in Japan



Supplemental Material 2: SIF-Japan's SRI Investment Standards

In preparing this review, SIF-Japan used the following definition of Broad-SRI and classified investment funds that met these standards as SRI investment trusts. However, trust funds operated by asset management companies not considered to be SRI compliant have been excluded from the scope of this review.

Definition of Broad-SRI

Broad-SRI is defined as having the following characteristics.
First characteristic: Investment, based on a broad definition*1, in which the intent of the final provider of funds*2 can be confirmed
Second characteristic: Investment in which at least one ESG factor is consider during the investing 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 (Stock, bonds, etc)	Other, direct investment
Consideration of ESG when selecting investments	Eco funds, SRI investment fund, 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 process	Financial products with included donations, etc. (Excluded)	(Excluded)

Supplemental Material 3: Government Policy and SRI

1. Promoting spread of SRI	
(1) Environmental Consideration Law	The Environmental Consideration Law went into effect in April 2005. In article 4, it describes the duty of businesses to work to provide information regarding the relationship between their business activities and the environment. In article 5, it encourages businesses and consumers to consider environmental information when conducting investment or other activities (purchasing green products, etc.). Neither of these policies involves penalties, nor is their observation required. The law is based on the aim of creating a virtual cycle linking environmental consideration with economic activity by encouraging SRI and green purchasing.
(2) Principles for Financial Action towards a Sustainable Society (Principles for Financial Action for the 21st Century)	In September 2009, the Ministry of the Environment's Central Environment Council established the Committee on Finance and the Environment. The committee filed a report in June 2010 that proposed the establishment of environmental finance principles for Japan as a means of expanding systems for environmental finance initiatives. A drafting committee has been assembled through voluntary participation by financial institutions that endorse this intention, and the Ministry of the Environment is offering back office support to this committee. In October 2011, principles were outlined, as were three guidelines for observing these principles in various different financial fields (asset management, securities, investment banking, insurance, commercial banking, lending and leasing.) Applications for signatory institutions began being accepted in November 2011.
(3) Exception NPO banks from regulations of the Money Lending Business Act	Currently, NPO banks are subject to the regulations of the Money Lending Business Act. This act aims to protect people borrowing from money lenders by regulating these lenders. As regulations continued to be tightened, the existence of NPO banks, which lack management constitution, fell under threat. However, in June 2010, the Financial Services Agency revised this act to classify institutions that meet certain conditions, such as conducting socially beneficial lending that is non-profit oriented, low interest, or directed toward NPOs or people in need of financial assistance, as certified non-profit financial institutions. Such institutions are excepted from several regulations stipulated in the act, including those that heavily impair the activities of NPO banks. However, there are some who believe that a separate law should be established exclusively for NPO banks to replace the Money Lending Business Act[1].
2. Promoting ESG information disclosure	
(1) Environmental Reporting Guidelines	In February 2001, the Ministry of the Environment released its Environmental Reporting Guidelines, which was later revised in June 2007. These guidelines comprehensively include provisions from reporting on both environmental and social activities. According to a report compiled by KMPG AZSA LLC and KMPG AZSA Sustainability[2], as of October 2010, 145, or 73.6%, of the 197 Nikkei 225 companies that publish sustainable reports published them based on these guidelines. In October 2011, a committee was established to consider how to improve the

[1] Source: Japan NPO-BANK Network, news release, May 2, 2010 (http://www.NPObank.net/docs/news/20100502_NewsRelease.pdf, Japanese only)
[2] Source: KMPG AZSA and KMPG AZSA Sustainability, Sustainability Reporting Survey in Japan 2010 (http://sus.kpmg.or.jp/knowledge/research/r_azsus201102.pdf, Japanese only)

	guidelines for their next revision.
(2) System for measurement, reporting, and publicizing green-house gas emissions	Businesses that emit large volumes of green-house gases have been required to measure emissions and report this data to the Japanese government since April 2006. This system behind this requirement was established in accordance with the Law on Promotion of Global Warming Countermeasures. This system were developed with the aim of making information readily available, which is believed will encourage not only applicable businesses, but also all the citizens of Japan to cultivate opportunities and voluntarily work to limit emissions. The data collected through this system is made publicly available in the form of a database. It is also anticipated that this data will be used when making investment and financing decisions as a basis for evaluating financial risks resulting from regulations and other factors.

Winners of SRI Report Contest Sponsored by SIF-Japan and Kinzai, Corp.

SIF-Japan held the SRI Report Contest in conjunction with Kinzai, Corp to promote the preparation of research reports on the SRI market and transmitting the findings of these reports. The winners of this contest are as follows:

Grand prize: N/A
Runner-up: Ayako Hatano

【Summary of Report】

The civil sector is an entity that bears responsibility of working for the good of society together with the government. The role it must play in society has become substantially larger in the world. In Japan, however, the scale of social finance is much smaller than that of Europe or the United States. This report focuses on NPO banks, which serve as a major actor in social finance sector, and its three stakeholders ; borrowers (businesses), providers (citizens), and lenders (financial institutions) of capital. The report will explore the fundamental issues Japanese NPO banks suffer from and will propose possible solutions.

The issues from borrowers' prospective such as; (1) the lack of professional and business-oriented NPO banks, (2) the lack of human resources capable of managing finances, and (3) the need for systems to ensure security of individuals to borrow the money (organization representatives, etc.). Issues faced by lenders include (1) the low recognition of NPO banks in society and (2) the lack of human resources capable of addressing the latent demand of borrowers and supporting management in promoting financing.

One reason behind these issues is the insufficiency of legal systems to support NPO banks. Concerning the current legislation pertaining to NPO banks, it is clear that there are a number of obstacles for these banks to overcome. One of these obstacles is that the capital provision toward NPO banks differs from that toward regular banks regulated by the Banking Act. Because capital provided to NPO banks is treated as investment under the Banking Act, the capital, in principle, cannot be guaranteed and NPO banks cannot receive supports in the form of deposit insurance, government financing or subsidies, or tax breaks. Another obstacle is the limitations NPO banks face in regards to generating monetary profit. If such a bank were to generate a profit, they would become subject to strict regulation under the Financial Instruments and Exchange Act. This limitation interferes with NPO banks' ability to secure operating and business capital. Also, these banks were initially unable to receive exemptions under the revised Money Lending Business Act, which is mainly geared toward consumer credit. The third obstacle is the restriction prohibiting on current NPO from applying for direct investments. This has forced some NPOs to employ investment and financing schemes with multiple legal personalities which are complex and make locus of responsibility unclear.

In this manner, NPO banks in Japan are currently suffering due to the restrictions by laws meant for profit-seeking companies. Therefore, it is necessary that legislation be developed specifically for NPO banks. A reasonable solution is to make appropriate new legal personalities for NPO banks, which could also help clarify the exceptions applicable to these banks under the Financial Instruments and Exchange Act and the Money Lending Business Act. It also enables NPO banks to operate efficiently, encouraging for them to receive donations and investment more flexibly and generate a certain degree of profit. Those systems to support NGO banks would help cycle capital into non-profit-oriented financial activities, which would benefit society by invigorating social finance and empowering NPOs and social enterprises. Furthermore, such a system could lead to the rise of a more effective and sustainable social finance that is not merely compensate for government insufficiencies and play a temporary role in times of recession, but can encourage the civil sector to address social issues, subsequently contributing to the realization of a more lively and enjoyable society.

Ayako Hatano
University of Tokyo Graduate School of Law and Politics (School of Law),University of Tokyo Graduate School of Interfaculty Initiative in Information Studies Research Student Program, University-wide Graduate School of Education Program' Japan-Asian Studies'

◆Judges:

Megumi Suto
Professor, Graduate School of Finance, Accounting & Law, Waseda University

Tsukasa Kanai
Head Office Executive, Corporate Social Responsibility Office, Corporate Planning Department, SumitomoTrust & Banking Co., Ltd.

Takeshi Mizuguchi
Professor, Takasaki City University of Economics
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Mariko Kawaguchi
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Chief Executive & Secretary General of SIF-Japan

◆Special Contributions:

Kinzai Corporation
Daiwa Securities Group Inc.
Seven & i Holdings Co., Ltd.

◆Contributions:

KPMG AZSA Sustainability Co., Ltd..
Trust Sixty Foundation

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DBJ 日本政策投資銀行 Development Bank of Japan

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