

UNEP FI Japan Group
Environment and Finance



UNEP **Finance Initiative**
Innovative financing for sustainability

Introduction: Is Japan an advanced country regarding environmental concerns?

Is Japan advanced regarding environmental concerns? It may be so in the manufacturing sector because we see zero-emission factories in industrial areas. We have learned lessons through the experience of overcoming pollution issues and energy crises. Hybrid vehicles are commonly seen on the streets these days. What about the agriculture and service sectors then?

Agricultural fields and office buildings might be seen as irrelevant to environmental issues. However, the use of ethanol, a known new energy source, affects the productivity of agricultural concerns. And the increasing volume of carbon dioxide emissions from buildings in recent years has been attributed to buildings in general and not mainly to factories. There seem to be weaknesses in Japanese environmental control management.

Environmental protection is an unavoidable issue in the course of industrial development (as economies mature). It is clear that in the near future the lessons we learned in the manufacturing sector's environmental protection programs will be applicable to the agriculture and service sectors, where potential business opportunities are currently found.

An aspect of the financial sector is that its environmental activities tend to link with other industries' services. There are many challenges and responsibilities in the industrial sector for Japan to deal with in order to truly become an environmentally advanced country. We sincerely hope Japan will become the UNEP FI's role model in the near future.

Note : Although the volume of socially responsible investment (SRI) in Japan is one hundredth that of the U.K. and one thousandth that of the U.S., respectively, the number may be misleading because the Japanese manufacturing sector has long been active and relatively advanced in environmental control and energy measures. Moreover, differences in cultural environment and financial asset structure may need to be considered.

What is UNEP FI?

The United Nations Environment Programme Finance Initiative (UNEP FI) is a unique global partnership between the United Nations Environment Programme (UNEP) and the private financial sector.

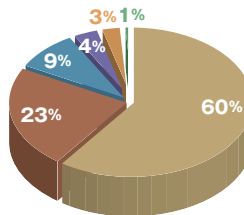
UNEP FI works closely with over 160 financial institutions who are signatories to the UNEP FI Statements, and a range of partners organizations to develop and promote linkages between the environment, sustainability and financial performance. Through regional activities, a comprehensive work programmes, training programmes and research, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations.

Objectives

- 1) Adopt a sustainable mechanism of profitable financial business models.
- 2) Promote private investment to “sustainable industry” and “technology industry”.
- 3) Generate constructive discussions among financial industry and “sustainability experts”.

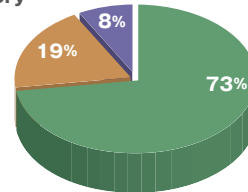
Member organizations, by region

Europe	60%
Asia Pacific	23%
North America	9%
Africa	4%
Latin America	3%
Middle East	1%



Member organizations, by business category

Banking	73%
Insurance	19%
Others (asset management, pension funds, foundations)	8%



Source : UNEP FI Overview 2005

UNEP FI

Regional task forces

Europe
Asia Pacific
North America
Africa
Latin America
Middle East

Australasia Group
Japan Group
Korea Group
Outreach Group

Progress of UNEP FI Japan Group

UNEP FI Tokyo Global Roundtable Conference, October, 2003

- 1 The first “UNEP FI Global Roundtable” in Asia
- 2 Approximately 100 financial institutions from over 30 countries participated
- 3 Subject : “Sustaining Value : A Meeting on Finance and Sustainability”

[Tokyo Principal towards a sustainable society]

Financial institutions,

1) are to make appropriate considerations of the social and/or environmental impacts of the project or the business subject to their investment, lending or insurance activities.

2) will endeavor to actively select business that contribute to environmental protection and sustainable development, support these in its investment, lending or insurance activities and spread such products in the development and sales of insurance, asset management and other financial products.

3) when conducting the aforementioned financial activities, will incorporate the most appropriate management policy, reporting guidelines and other governance structures and be alert to their direct and indirect environmental impacts.

4) through communication with stakeholders endeavor to take part in dissemination of information on sustainable development.

Jurisdictional analysis regarding ESG issues in Japan

Investment companies that manage mutual funds have already introduced various financial products in which ESG issues are taken into account into the market. It seems that ESG is one of the selling points of such products, and the existence of these products is recognized not only by institutional investors, but also retail investors.

However, from a legal point of view, we think that the discussion with regard to ESG is still in its early stages in Japan. The principal of profit maximization remains engrained within the investment market's regulatory framework, and any screening of investments or shareholder activism must be carried out in keeping with the principals of maximizing the financial return for the beneficiary.

One of the reasons would be the passive attitude of the GPIF and EPFs. They have experienced severe financial difficulties since the collapse of the economic bubble and, therefore, have had to concentrate on maximizing financial value rather than social responsibility. The ministry of environment published the Report of the surveillance study concerning environment-conscious activities in financial business in March 2002. It stated that the impetus to take environmental-conscious activities has been weak in the financial industry in Japan as compared to in the US and Europe, and that wider discussion is necessary throughout society if promotion of the environment and social fairness are to become more established in the financial industry. The report describes

ESG-related efforts made by private mutual funds only, and makes no mention of pension funds or insurance companies.

"Principles for Responsible Investment" Overview

There is a growing view among investment professionals that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios. Investors fulfilling their fiduciary (or equivalent) duty therefore need to give appropriate consideration to these issues, but to date have lacked a framework for doing so. The Principles for Responsible Investment provide this framework.

The Principles are voluntary and aspirational. They are not prescriptive, but instead provide a menu of possible actions for incorporating ESG issues into mainstream investment decision-making and ownership practices.

Signing represents a very real commitment to the Principles, demonstrating support from the toplevel leadership of the whole investment business. And applying the Principles should not only lead to better long-term financial returns but also a closer alignment between the objectives of institutional investors and those of society at large.

Developing the Principles for Responsible Investment

In early 2005 the United Nations Secretary-General invited a group of the world's largest institutional investors to join a process to develop the Principles for Responsible Investment (PRI). Individuals representing 20 institutional investors from 12 countries agreed to participate in the Investor Group. The Group accepted ownership of the Principles, and had the freedom to develop them as they saw fit.

The Group was supported by a 70-person multi-stakeholder group of experts from the investment industry, intergovernmental and governmental organizations, civil society and academia. The process, conducted between April 2005 and January 2006 involved a total of five days of face-to-face deliberations by the investors and four days by the experts, with hundreds of hours of followup activity. The Principles for Responsible Investment emerged as a result of these meetings. The process was coordinated by the United Nations Environment Programme Finance Initiative (UNEP FI) and the UN Global Compact. The PRI reflects the core values of the group of large investors whose investment horizon is generally long, and whose portfolios are often highly diversified. However, the Principles are open to all institutional investors, investment managers and professional service partners to support.

Following the launch of the Principles, Phase 2 of the process will promote adoption of the Principles by additional investors, provide comprehensive resources to assist investors in implementing the Principles and actions, and facilitate collaboration among signatories.

Carbon Disclosure Project (CDP)

The Carbon Disclosure Project (CDP) provides a secretariat for the world's largest institutional investor collaboration on the business implications of climate change. CDP represents an efficient process whereby many institutional investors collectively sign a single global request for disclosure of information on Greenhouse Gas Emissions. CDP has historically sent this request to the FT500 largest companies in the world however in 2006 we have expanded our reach to 2180 companies, with over 950 responding with an answered questionnaire.

This web site is the largest registry of corporate greenhouse gas emissions in the world. Responses from corporations can be downloaded without charge.

CDP was launched on 4th December 2000 at No. 10 Downing Street. The first cycle of the project (CDP 1) involved sending a letter and questionnaire to the FT500 largest companies in the world on 31st May 2002. This letter was signed by 35 institutional investors who collaborated to provide an efficient mechanism for disclosure of this information. The CDP 1 report and the response from corporations were made available from this website on 17th February 2003. 71% of corporations responded and 45% answered the questionnaire in full.

Launches were held in London (Chair, Derek Higgs), New York (Chair, Madeleine Albright) and Hong Kong (Tessa Tennant).

Environmental Policies in Japan

Law Concerning the Promotion of Business Activities with Environmental Consideration by Specified Corporations, etc., by Facilitating Access to Environmental Information, and Other Measures (Provisional Translation) (Law No. 77 of 2004)

Article 1 (Purpose)

In view of the importance of business-related environmental conservation and their appropriate environmental assessments in promoting environmental conservation and ensuring a sound economic development, the purpose of this law is to clarify the responsibilities of the State in providing and making use of information on the state of business-related environmental consideration and to take measures to prepare and publish environmental reports by Specified Corporations so as to ensure appropriate business-related environmental conservation, thereby contributing to ensuring a healthy and cultured living for both the present and future generations of the nation.

Article 4 (Responsibilities of Corporations)

A corporation shall strive to provide its own business-related environmental information and take into consideration its counterparts' environmental information when investing or engaging in other activities with other corporations.

Article 5 (Responsibilities of Citizens)

Citizens shall strive to include environmental information as a consideration in investing and other activities.

Policies in “Environment and Finance” «Ministry of the Environment»

“Environment and Finance” Roundtable

The Environment and Finance Roundtable was convened on March 2006 to discuss the framework of environmental policies regarding the financial sector. Its aim is to build a system in which private enterprises' social contributions such as SRI can reach levels that may help generate effective utilization of private financial assets of over 150,000 billion yen in Japan. The final report was summarized in July 2006 and reflected throughout in the course of budget compilation for the 2007 fiscal year.

FY2007. National Budget regarding “Environment and Finance”

- Enlightenment activities to promote investment with environmental concerns to depositors and investors in order to integrate Japan's advanced environmental technology and private financial assets of over 150,000 billion yen
- Support community funds that provide loans to environmental and energy conservation activities

Member List of UNEP FI Japan

(as of the end of December 2006)

Among UNEP FI's 170 member organizations (from 44 countries), the 18 from Japan (UNEP FI Japan) are as follows.

Banks and Securities Companies

Name of organization	Accession date
Nikko Cordial Corporation	March 2000
Nikko Asset Management Co., Ltd.	March 2000
Good Bankers Co., Ltd.	March 2000
Development Bank of Japan	June 2001
The Shiga Bank, Ltd.	October 2001
Sumitomo Mitsui Financial Group, Inc.	June 2002
The Sumitomo Trust & Banking Co., Ltd.	October 2003
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	May 2004
Japan Bank for International Cooperation	May 2004
Daiwa Securities Group, Inc.	November 2004
Mitsubishi UFJ Trust and Banking Corporation	April 2006
Mitsui Trust Financial Group	July 2006
Mizuho Financial Group, Inc.	August 2006

Insurance companies

Name of organization	Accession date
Mitsui Sumitomo Insurance Co., Ltd.	November 1995
Sompo Japan Insurance, Inc.	November 1995
Tokio Marine & Nichido Fire Insurance Co., Ltd.	April 1997
Nipponkoa Insurance Co., Ltd.	July 2002
Aioi Insurance Co., Ltd.	February 2005



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http://www.unepfi.org/regional_activities/asia_pacific/japan/index.html