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On the Issuance of the Japan Climate Transition Bonds

An island nation surrounded by the sea, Japan has limited arable land and is not blessed with natural resources. For this reason, while Japan is not unfamiliar to research and development of technologies related to decarbonization—in fact there are many sectors in which Japan exhibits technological strengths—, Japan has at the same time also been fraught with challenges in energy security, as evidenced time and time again by its experiences with energy crises. For Japan, the Green Transformation (or GX for short), which aims to shift the foundations of society and industry from one centered around fossil fuels to one based on clean energy, is a core initiative to transform industrial and energy policies and strengthen corporate and national competitiveness.

To accelerate the pace toward achieving GX, it is estimated that more than 150 trillion yen in public and private GX-related investments will be required over the next 10 years. Given this, as part of a long-term and multi-year effort for the promotion of GX-related investments, the Japanese government has decided to issue “GX Economy Transition Bonds” worth 20 trillion yen over the next 10 years. We understand that these GX Economy Transition Bonds will support projects in which the private sector alone would find truly difficult to decide to invest, as well as projects that contribute to strengthening industrial competitiveness and reducing emissions. These bonds are expected to support the costs associated with research and development, capital expenditure, and initial demand generation, and serve to lend a helping hand to companies that are making the effort to take on the challenge of accelerating their decarbonization. In addition, the GX Economy Transition Bonds have received second party opinions from several external reviewers on their alignment with the International Capital Market Association (ICMA)’s Principles, etc.—the global standard in the sustainable finance market. The bonds will be issued as “Climate Transition Interest-Bearing Government Bonds”, marking them the world’s first sovereign transition bond.

The issuance of sovereign transition bonds by Japan is expected to enhance the predictability of private businesses, demonstrate both at home and abroad Japan's intention to achieve GX through public-private cooperation, and trigger further funding from the private sector in the future. It could also serve as an opportunity to accelerate GX not only in Japan, but also in Asia and the rest of the world. We believe that the GX Economy Transition Bonds will lead to investment that will propel the achievement of GX, as well as facilitate measures to promote investments that support the social implementation of technologies for decarbonization. It is imperative for all of Japan to make steady, visible, and highly predictable progress toward the



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implementation of public and private sector GX-related investment. We, the securities industry, recognize the significance of the government's efforts, and, leveraging the capital raising/supply functions of the securities market, will make every effort as market intermediaries to contribute to the steady promotion of GX while we continue to engage with fundraisers and investors.

Toshio Morita
Chairman and CEO
Japan Securities Dealers Association