

Key Points of the Basic Guidelines Revision

Feb 2025

Environmental Finance Office, GX Policy Group, METI

Main points of the Basic Guidelines revision

[Overview]

- Since the establishment of the Basic Guidelines in 2021, there has been considerable progress in the recognition of transition finance both in Japan and overseas. Additionally, international initiatives regarding transition finance have changed, such as the revision of ICMA's Climate Transition Finance Handbook (CTFH).
- In light of this situation, this revision aims to (1) make updates based on the revision of ICMA's CTFH, (2) organize and display the state of development of the transition finance market in Japan and overseas.
- Based on that, regarding the diverse perspectives on transition finance observed internationally, Japan, having advanced the development of the transition finance market environment ahead of the world through inter-ministerial collaboration and public-private partnerships, aims to promote the "Japan Model" with an eye toward global expansion.

[Key Points of Revision]

(Chapter 1)

- Developments in Japan's transition finance-related measures since the formulation of the Basic Guidelines
- Changes in the global context (The Russia-Ukraine crisis, COP 28, and increased demand for electricity due to digital transformation)

(Chapter 2)

- Reorganizes the concept and positioning of transition finance
- Cases of transition finance in Japan and overseas and the global concept of transition finance
(Addition of column: "Taxonomies and Roadmaps")

(Chapter 3)

- Revises based on CTFH revisions (In particular, reference to scope 3, investment plans, and regional and industry scenarios)
- Introduces Japan's views on Avoided Emissions of Product (AEP), Reduced Emissions of Product (REP), and transition plans
- Specifies how SMEs should respond and the terms of reservations, taking into account the differences in the characteristics of bonds(CTFH mainly targets on) and loans, and considerations from competition law standpoints etc.

Chapter Structure and Points of the Revision of the Basic Guidelines (1/2)

Chapter Structure after Revision		Revision Policy/Points
Chapter 1 Introduction	1. Background and Purpose of the Basic Guidelines	Explanation of the background context of the initial version of the Basic Guidelines (2021) (Updates on some terms and phrases, without major changes from the original Chapter 1 Section 1.)
	2. Developments after Formulation of Guidelines and Purpose of Revision (new)	Purpose of revising the Basic Guidelines. <ul style="list-style-type: none"> Trends and developments in transition finance in Japan and overseas. (Especially <u>introducing a series of pioneering public-private partnership initiatives in Japan</u>) Demonstrating Japan's aim to further develop as a leading market for transition finance through public-private collaboration.
	3. Standpoint of these Basic Guidelines	Basic concept similar to initial version + addition of message on applicability in other countries and regions. <ul style="list-style-type: none"> Adds that the Basic Guidelines can be used in other countries and regions.
Chapter 2 Overview of Transition Finance	1. What is Transition Finance?	Indicating the concept and positioning of transition finance in the Basic Guidelines (Added views on various pathways and credibility at the corporate level) <ul style="list-style-type: none"> <u>Clarify that a company's transition pathways may vary depending on the country/region and the sector.</u> <u>Clarify the development of sector-specific roadmaps</u> as Japanese government's initiative.
	2. Disclosure Elements Required in Transition Finance	Reorganizes the concept of transition finance in this basic guideline based on the revision of the CTFH <ul style="list-style-type: none"> <u>Update the concepts of transition finance defined by ICMA</u> in line with the revision of CTFH
	3. Positioning of the new Basic Guidelines (new)	Introduce examples in Japan and overseas (*A list of cases will be published in the Appendix) and the concept of transition finance globally, and reiterate the positioning of these Basic Guidelines. <ul style="list-style-type: none"> Introduce cases in Japan and overseas, <u>including issuances with a "transition" label and cases which may not have a specific label but refer to these Basic Guidelines and CTFH.</u> Discuss the concept of transition finance as described in the ICMA Report (February 2024), ASEAN Transition Finance Guidance, and from GFANZ Explain the positioning of the Basic Guidelines based on the discussions of the ICMA Report
	Column: Taxonomy and Roadmaps (new)	Introduction of the concept of referring to taxonomies and roadmaps as approaches to determining the eligibility of transition strategies <ul style="list-style-type: none"> <u>Explain the characteristics of taxonomy and roadmap approaches</u> Explain the Japanese government's efforts to improve the credibility of transition finance, such as the development of sector-specific roadmaps and Transition Finance Follow-up Guidance

Chapter Structure and Points of the Revision of the Basic Guidelines (2/2)

Chapter Structure after Revision	Revision Policy/Points
Chapter 3 Expectations in Transition Finance and Specific Approaches	<p>Addition of details common to all disclosure elements, including aspects related to loans, medium-sized and small enterprises, and competition law perspectives.</p> <ul style="list-style-type: none">Includes additional descriptions for <u>disclosure in the case of loans, particularly for medium-sized and small enterprises.</u><u>Addition on provisions regarding the handling of matters that fall under business strategy confidentiality (or should be kept confidential) in disclosures.</u>
	<p>Promoting Japan's perspective while incorporating the revision of ICMA CTFH</p> <ul style="list-style-type: none"><u>Reflection on the revision of ICMA CTFH</u> (In particular, reference to scope 3, investment plans, and regional and industry specific scenarios)<u>Explanation of the concepts of Avoided Emissions of Product (AEP) and Reduced Emissions of Product (REP) in the dedicated column,</u> along with Japan's perspective on transition plans.<u>Addition of a column on Scope 3 emissions in Element 2</u> to explain its nature and role.



Appendix

Japan's 4 Step Policy Tools on Climate Transition Finance

G7 Leaders Summit (May 2023, Hiroshima)

- **Transition finance**, in line with keeping a limit of 1.5°C temperature rise within reach, avoiding carbon lock-ins and based on effective emissions reduction, **has a significant role in advancing the decarbonization of the economy as a whole.**

- Although green projects have attracted investment, transition to net zero requires more.
- To encourage private finance flow for transition, Japanese government has taken 4-step-policy.
- Companies can also refer to these tools to develop a credible transition strategy.

1. Basic Guidelines

- ✓ FSA, MOE and METI formulated the Guidelines to establish transition finance in line with the ICMA transition handbook. (currently under revision)



2. Sector Roadmaps

- ✓ Roadmaps with technologies for transition is formulated for 8 sectors: **iron & steel, chemical, electricity, gas, oil, cement and paper & pulp, and automobiles.**
- ✓ The roadmaps can be referred by companies to formulate their strategies and pathways, and by financial entities to evaluate those of clients

3. Model Projects

- ✓ 30 model projects from shipping, steel, aviation, chemical, energy and heavy industry sectors.
- ✓ **The market of transition finance has reached roughly 2.4 trillion yen cumulatively.**

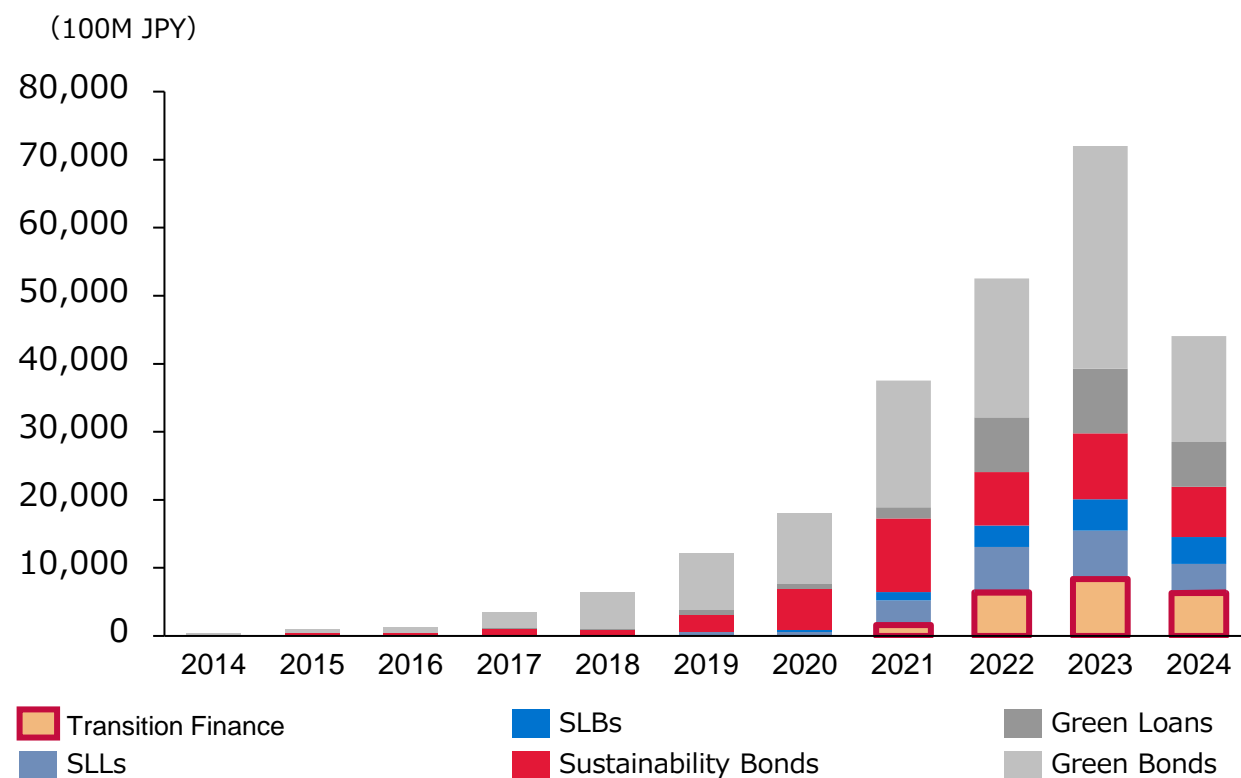
4. Follow-up Guidance

- ✓ **Guidance for financiers and fundraisers (especially bond issuers)** in following up after the issuance of transition finance was released in June 2023

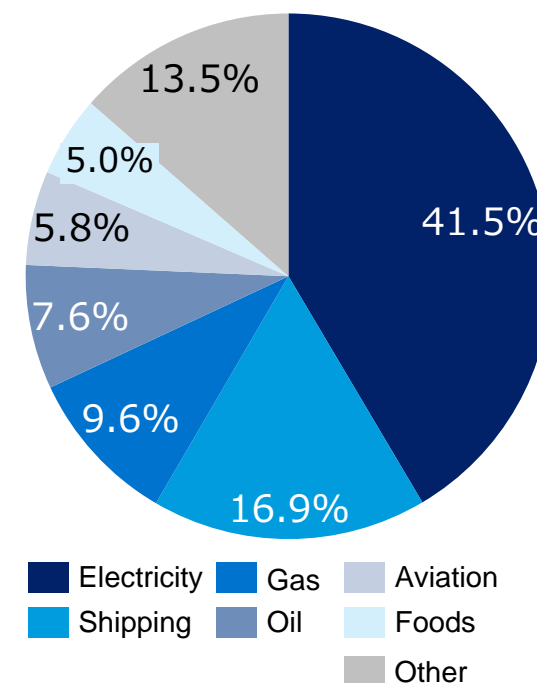


Trends in Amount of Transition-labeled Bonds and Loans

- The cumulative amount of transition-labeled bonds and loans has grown to roughly 2.4 trillion JPY as of December 2024.
*except for the Japan Climate Transition Bonds



Cumulative Domestic Issuance
(2021.1~2024.12)
Apprx. 2.4t JPY
(equivalent to USD 15b)



Japan Climate Transition Bonds

- The Japan Climate Transition Bond is the first transition bond in the world to be issued by a national government.
- The first round of GX Bond was issued in February 2024 (1.6 Trillion Yen), upon acquiring second party opinions from JCR and DNV, and certification by CBI.
- As of January 2025, GoJ has raised around 3.0 Trillion Yen so far.



Japan Climate Transition Bond Framework

- Published date: Nov 2023
- Inter-government committee (Cabinet Secretariat, FSA, MOF, METI, MOE)
- Second party opinion: JCR, DNV



First Issuance
Feb 2024
(1.6 trillion yen)

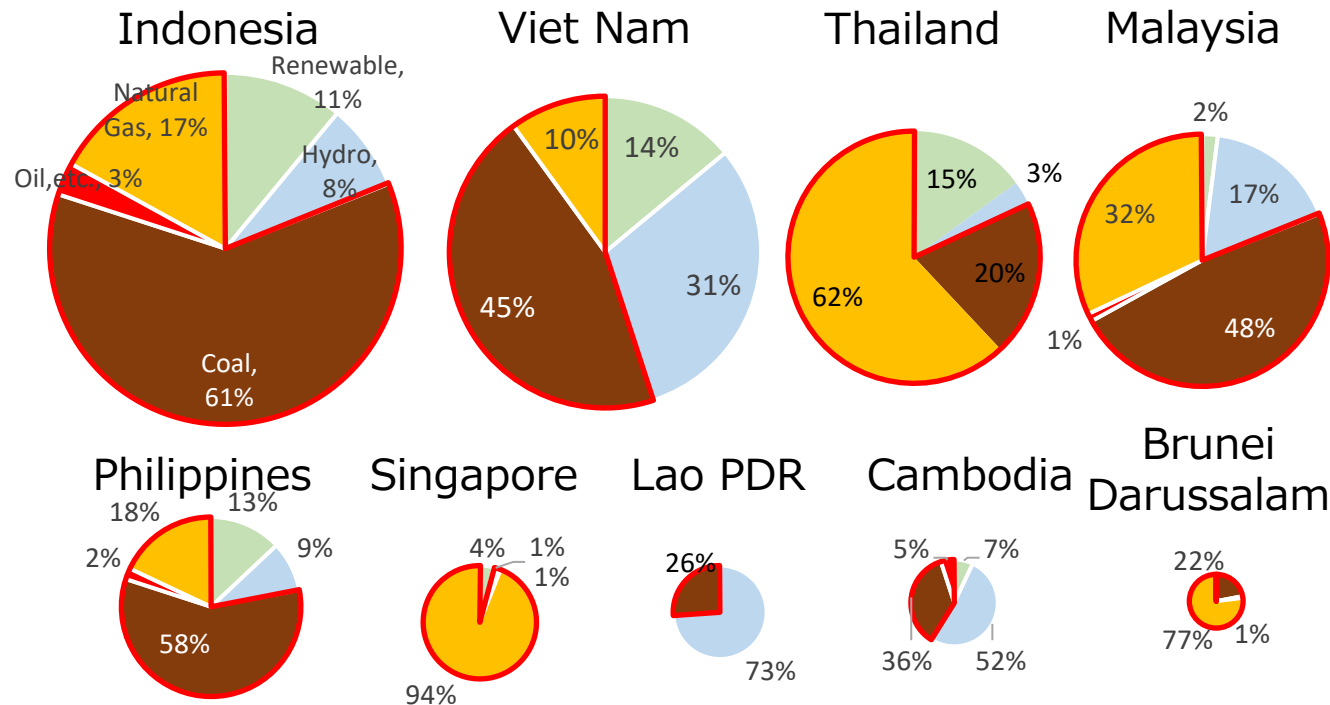
Result of bidding for Japan Climate Transition Bond (The first round, February 2024)

	10 year bond	5 year bond
Date of bidding	2024/2/14	2024/2/27
Annual coupon rate	0.7%	0.3%
Bid amount (bid-to-cover ratio)	2321.2 Billion Yen (x2.9)	2714.5 Billion Yen (x3.4)
Amount of bids accepted	799.5 Billion Yen	799.8 Billion Yen
Yield to maturity	0.740%	0.339%

AZEC (Asia Zero Emission Community)

- Although many ASEAN countries have announced their intention for carbon neutrality, many of them heavily depend on coal- and natural gas-fired power generation.
- As the demand for electricity further increases in line with economic growth, it is essential to steadily promote decarbonization in a practical manner.
- To this end, cooperation through Japanese technology, finance and experiences under AZEC platform are also important.

*The amount of electricity in ASEAN has doubled in the past decade and is expected to triple in the next 3 decades.



(Reference) China: Coal 64%, Natural Gas 3%, India: Coal 72%, Natural Gas 4%

※ The area of the pie chart is proportional to the amount of electricity generated in each country. However, Cambodia and Brunei are approximately four times of the actual area.

Source : IEA

CN goals set by Southeast Asian countries

Country	CN Target
Indonesia	CN by 2060
Viet Nam	CN by 2050
Thailand	CN by 2065 ※If it's only CO ₂ , then by 2050.
Malaysia	CN by 2050
Philippines	—
Singapore	CN by 2050
Lao PDR	CN by 2050
Cambodia	CN by 2050
Brunei Darussalam	—
Myanmar	CN by 2050

Source : NDCs submitted by each country, etc.

AZEC Leaders Meeting (2023/12/18)

The “AZEC Leaders’ Joint Statement”

① AZEC principles towards decarbonization

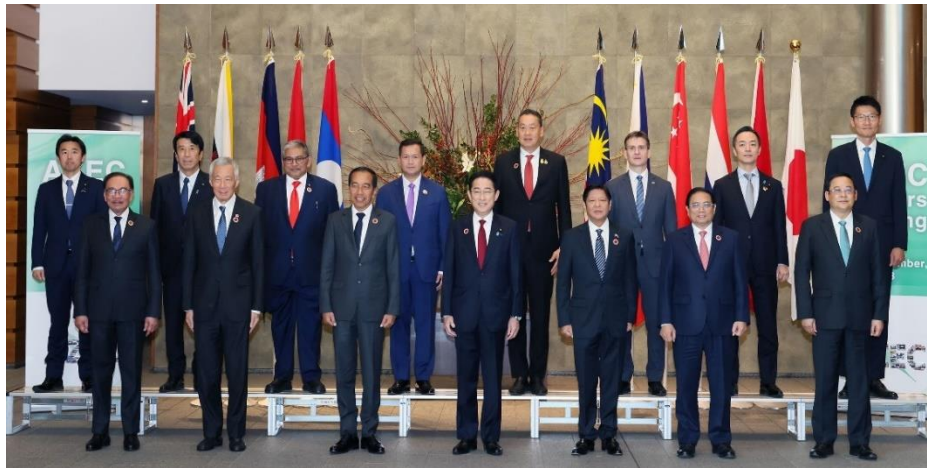
*Triple breakthrough of simultaneously achieving “decarbonization, economic growth, energy security”
Achieving a common goal of “net-zero emissions through various pathways”

② Supporting policy development (“Asia Zero Emission Center” to be set up in ERIA), fostering public-private cooperation (AZEC Advocacy Group)

③ Strengthening cooperation on decarbonization technologies, establishing green supply chains for manufacturing industries, promoting transition finance

Over 350 tangible cooperation projects ongoing

The importance of realistic energy transitions reflecting factors such as energy security highlighted by Dr. Daniel Yergin as a guest



AZEC Leaders Meeting Attendance:

Australia, Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Malaysia, the Philippines, Singapore, Thailand, Viet Nam, Japan (PM Kishida, METI Minister Saito)
Dr. Daniel Yergin (Guest), ERIA (Observer) Source: Cabinet Public Affairs Office

Report on tangible cooperation

- AZEC progress report

AZEC Advocacy Group

- Joint statement by ASEAN-BAC, Keidanren and ERIA
- Panel discussion by experts including above members at the ASEAN-Japan Economic Co-Creation Forum (Dec 16)



Commemorative photo session on Joint Statement
[with witness of PM Kishida, President Joko, METI Minister Saito] Source: Cabinet Public Affairs Office

Panel Discussion