

# Daiwa ESG Conference 2022

## How ESG bond markets have been developing in Japan?

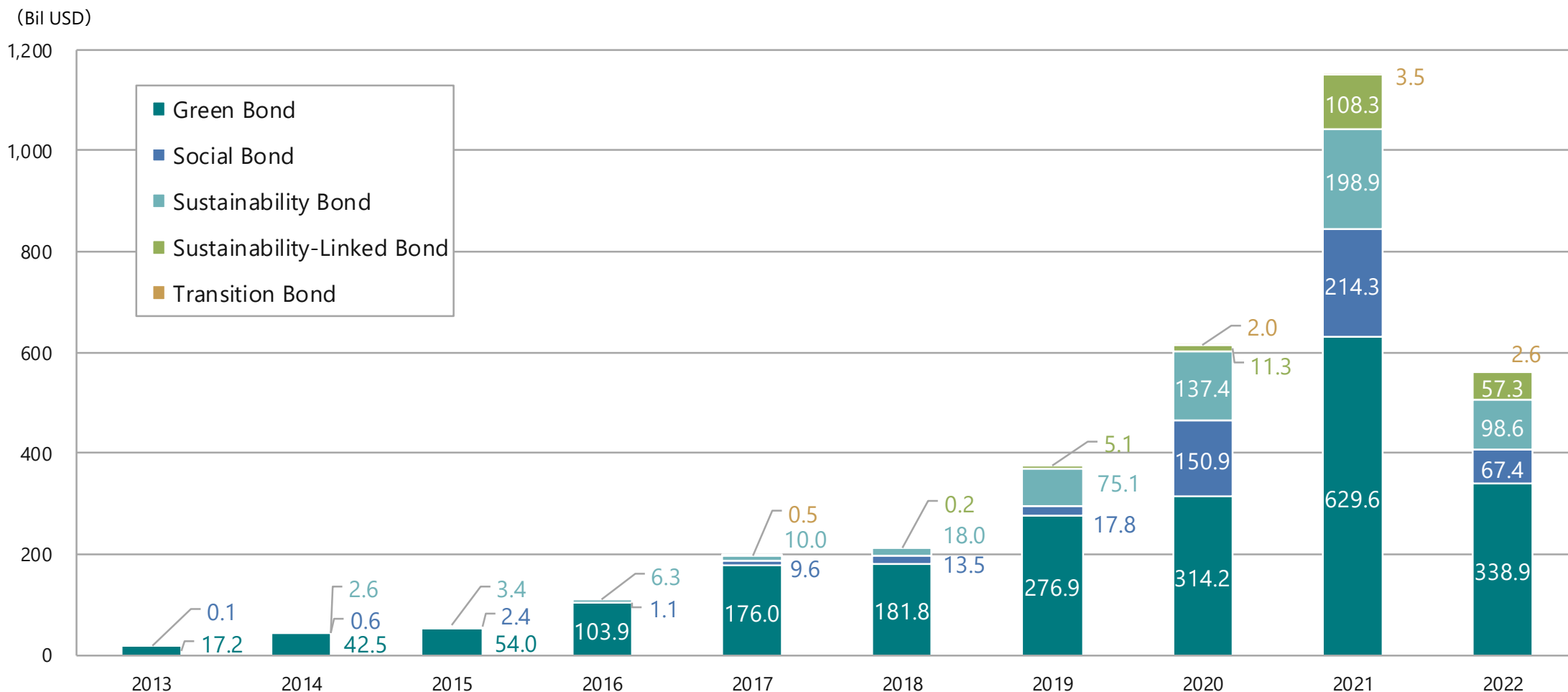
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# Global ESG bond issuance trend

- ESG bond issuance has been increasing. In 2021, it exceeded 1 trillion USD as a result of rapid increase from 2019
- Green bond accounts for over a half but other ESG bond types have also been increasing

## Global ESG bond issuance trend by type

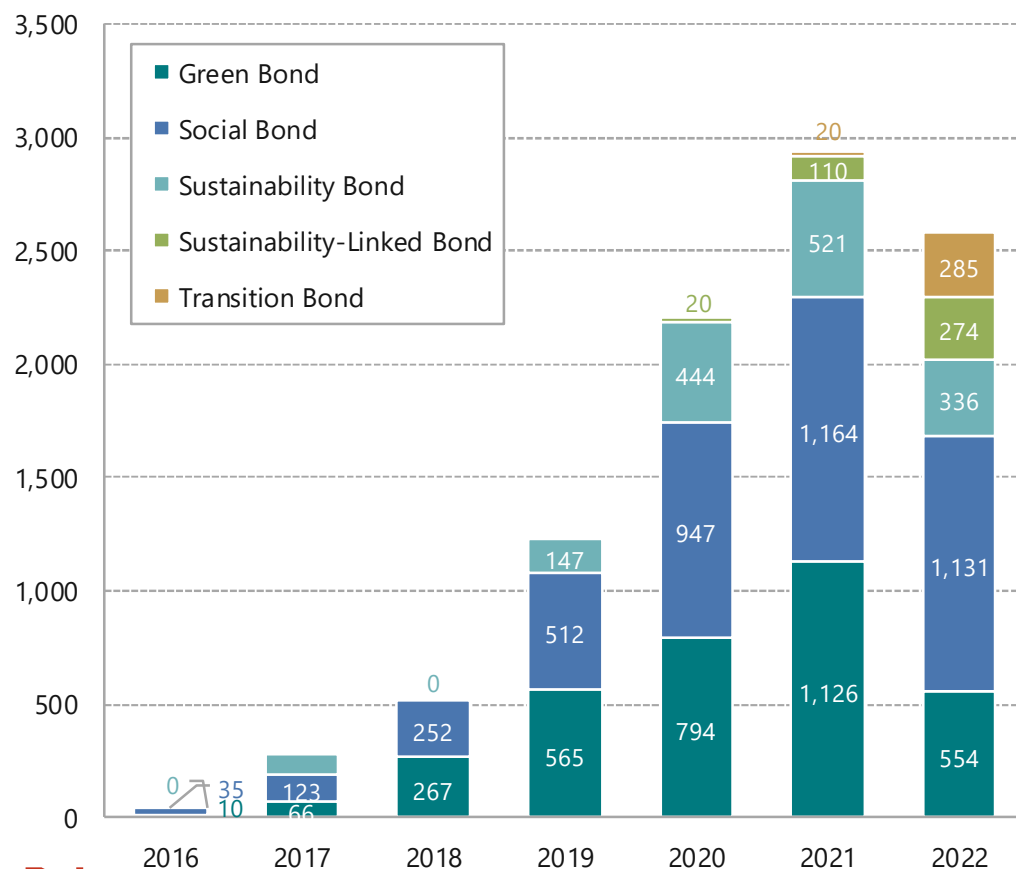


# ESG bond issuance trend in Japan

- Exponential growth from 2018 and its volume got over 5 times larger from 2018 to 2021
- We are already seeing active issuance in this year at the faster pace than 2021
- Transition bond and SLB has emerged from around 2021 and are growing
- **Zaito Agency** and Corporate are the main issuers

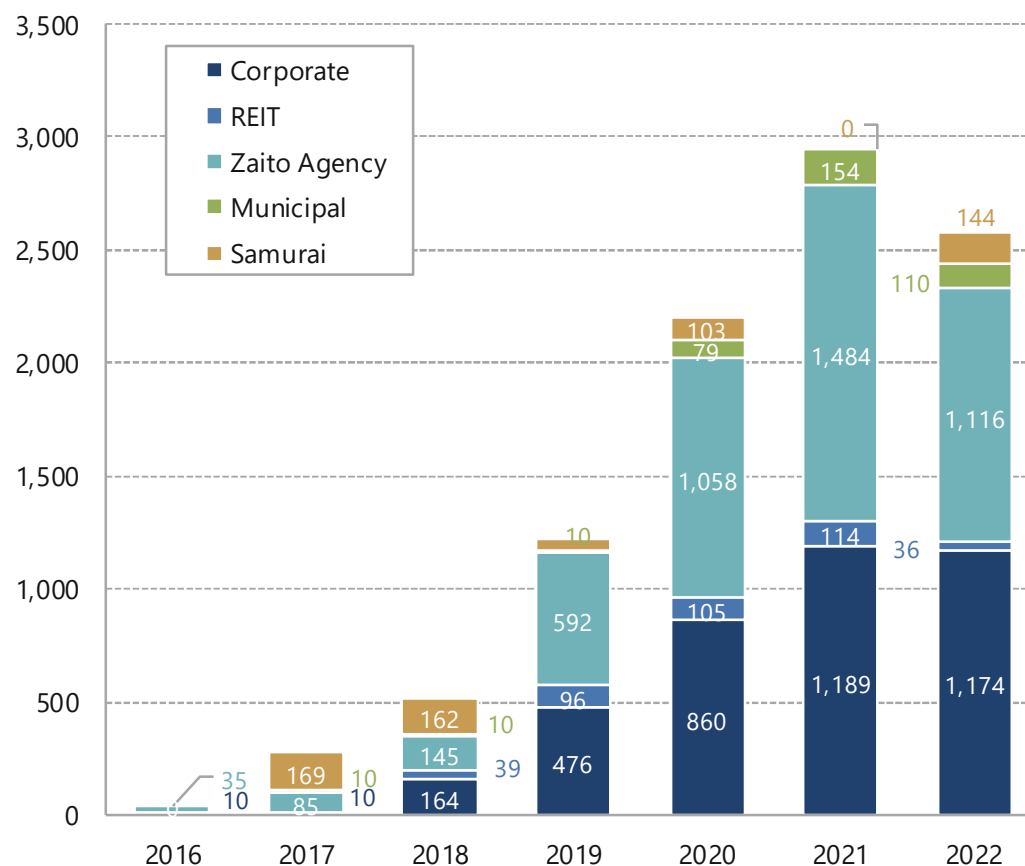
## ESG bond Issuance trend in Japan by type

(Billion JPY)



## ESG bond Issuance trend in Japan by issuer

(Billion JPY)



## Japan lays out plan to issue \$157 bln in 'green transition' bonds

Reuters

2 minute read



Japanese Prime Minister Fumio Kishida announces a joint statement with European Commission President Ursula von der Leyen and European Council President Charles Michel at the prime minister's official residence, in Tokyo, Japan May 12, 2022.

TOKYO, May 19 (Reuters) - Japanese Prime Minister Fumio Kishida on Thursday laid out a plan to issue an estimated 20 trillion yen (\$157 billion) worth of "green transition" bonds to help finance investment to achieve a carbon neutral society.

The move highlights Tokyo's efforts to seek alternative sources of energy as Russia's invasion of Ukraine illustrated the risks the country faces from its heavy reliance on fuel imports.

[Japan lays out plan to issue \\$157 bln in 'green transition' bonds | Reuters](#)

# Transition bond in Japan

- So far, there have been 13 transition bond issuance in Japan. Three transition bond issuances in FY2021(i.e. NYK, JAL and Tokyo Gas) and we've seen several issuances from Power, Gas and Oil industry in May, June and July 2022.
- Japanese transition bonds since Jan 2021 accounted for as much as 40% of global transition bonds.

## Transition bond in Japan

Issuer	Issue Date	Type	Maturity	Amount(JPY billion)	Roadmap Sector	Model	SPO provider
NYK Line	July 2021	Green/Transition	5	10	Maritime	○	DNV
			7	10			
Japan Airline	March 2022	Transition	5	10	Aviation	○	Sustainalytics
			7	10			
Tokyo Gas	March 2022	Transition	10	10	Gas	○	DNV
			10	10			
JERA	May 2022	Transition	5	12	Power	○	DNV
			10	8			
Kyusyu Electric Power	May 2022	Green/Transition/Link	5	30	Power	—	DNV
			10	25			
Osaka Gas	June 2022	Green/Transition	10	10	Gas/Power	○	DNV
	Aug 2022		10	27			
IHI	June 2022	Transition	5	11	Chemical/Power/Gas/Maritime/Aviation	○	JCR
			10	9			
JFE Holdings	June 2022	Green/Transition	5	25	Steel	○	JCR
			10	5			
ENEOS Holdings	June 2022	Transition/Link	10	85	Oil	—	JCR
			20	15			
Idemitsu Kosan	July 2022	Green/Transition	5	10	Oil/Chemical/Power/Aviation	○	DNV
			10	10			
Daido Steel	Aug 2022	Green/Transition	5	10	Steel	—	R&I
Mitsubishi Heavy Industries	Sep 2022	Green/Transition	5	10	Power/Gas/Steel/Chemical/Maritime	○	DNV

# Japan Airline (JAL) Transition Bond Overview

Pricing date	22/02/2022
Amount	10 billion JPY
Maturity	5 years
Coupon rate	0.70%
Rating	A-(R&I)/A(JCR)
Lead manager	Daiwa/Mitsubishi/Mizuho/BofA/Nomura
SA	Mitsubishi/Daiwa
SPO provider	Sustainalytics

## Overview of the framework aligned with GBP, etc.

### 1 Use of Proceeds

- The funds will be allocated to new and/or existing projects which meet the eligibility criteria below. Refinance will be limited up to 36 months from the issue date

GBP Categories	Eligible project
<b>Clean Transportation</b>	Upgrading to fuel-efficient aircraft Upgrading to the latest aircraft(Airbus A350/Boeing787) which has the high-efficiency under the ""

### Fuel efficient aircraft

- 15-20% CO2 emission reduction compared to previous aircraft models



### Introduction status

- Sep 2019: Airbus A350 went into service in a domestic line
- Oct 2019: Boeing787 which had been in service in an international line also went into service in a domestic line

## Overview of the issuer and its purpose of issuance

- In June 2020, JAL declared its ambitious target that they aim to achieve zero CO2 emission by 2050
- To accelerate their adaptation toward climate change, JAL incorporated the ESG strategy into "JAL Group Medium-Term Management Plan 2021-2025".
  - 10% CO2 emission reduction (scope1) in 2030 compared to 2019
  - Upgrading to fuel-efficient aircraft, reduction of CO2 emissions in daily operation and using SAF \*1 are the three key pillars to achieve net zero emission**
  - JAL has discussed their CO2 reduction scenario, challenge and effort in the future based on the latest materials of ICAO\*2 and IATA\*3 and the latest scenario of ATAG's\*4 "Waypoint 2050"
- The first METI model case in Japanese aviation industry and the world's first ICMA Handbook referenced case**

### 2 Process for Project Evaluation and Selection

- Finance dept. selects eligible project subject to negotiation with related business dept.
- General Manager of Finance & Accounting division will be responsible to select the eligible project on behalf of the Board of Directors

### 3 Management of Proceeds

- Finance dept. will manage the allocation of the proceeds annually using the internal management system until full allocation
- Unallocated amount will be managed in cash or cash equivalents
- Net proceeds is going to be allocated within 36 months from issuance

### 4 Reporting

- Allocation reporting will be disclosed on the website annually until full allocation
  - Allocated amount in each project category
  - Unallocated amount
  - Refinance amount
- Impact reporting: Below will be disclosed on the website until full allocation

GBP categories	Reporting items
<b>Upgrading to fuel-efficient aircraft</b>	✓ CO2 reduction amount per year

\*1 : Sustainable Aviation Fuel

\*2 : International Civil Aviation Organization

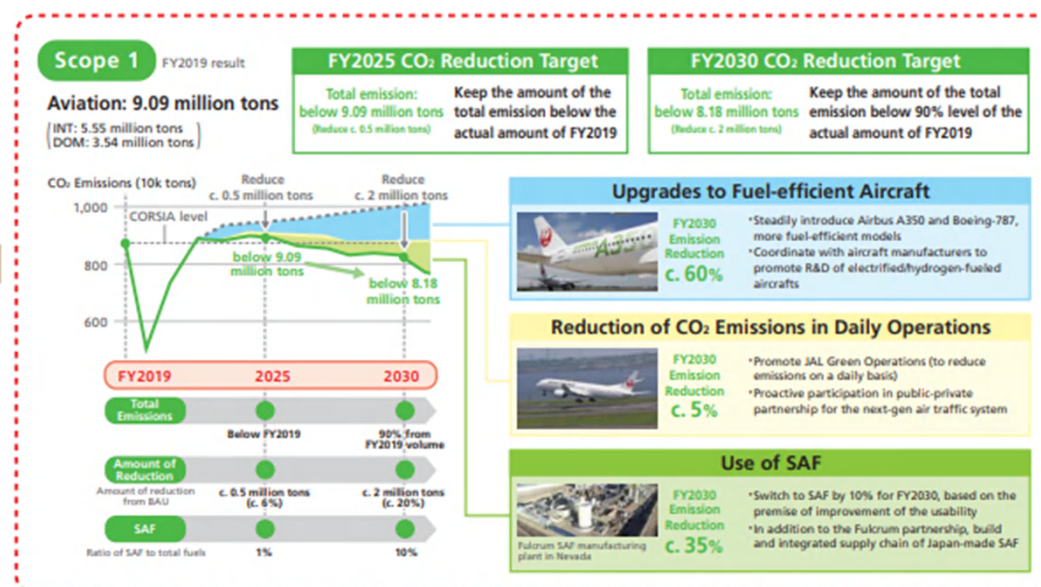
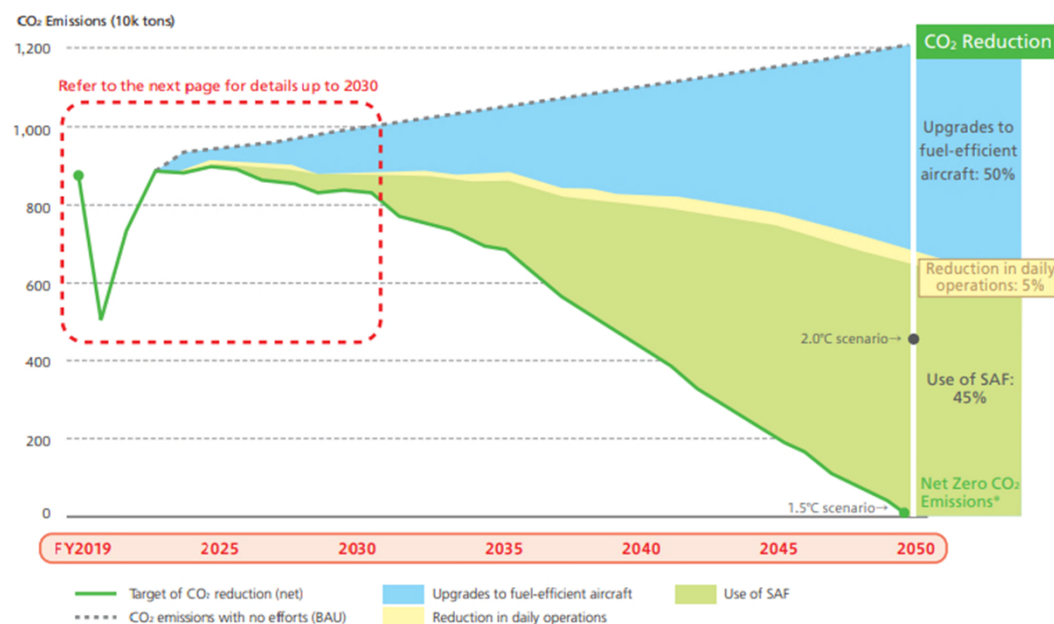
\*3 : International Air Transport Association

\*4 : Air Transport Action Group

# Japan Airline (JAL) Transition Bond Overview

- Sustainalytics and METI said JAL's roadmap for net zero 2050 is aligned with the industry's scenario
- JAL aims to reduce CO2 mainly by upgrading to fuel efficient aircraft and using SAF, the former is the UoP of this transition bond
- This could be the model case for airline industry which is seemed "hard abate sector" to promote net zero in a global scale

## JAL Group's roadmap towards net zero CO2 emissions

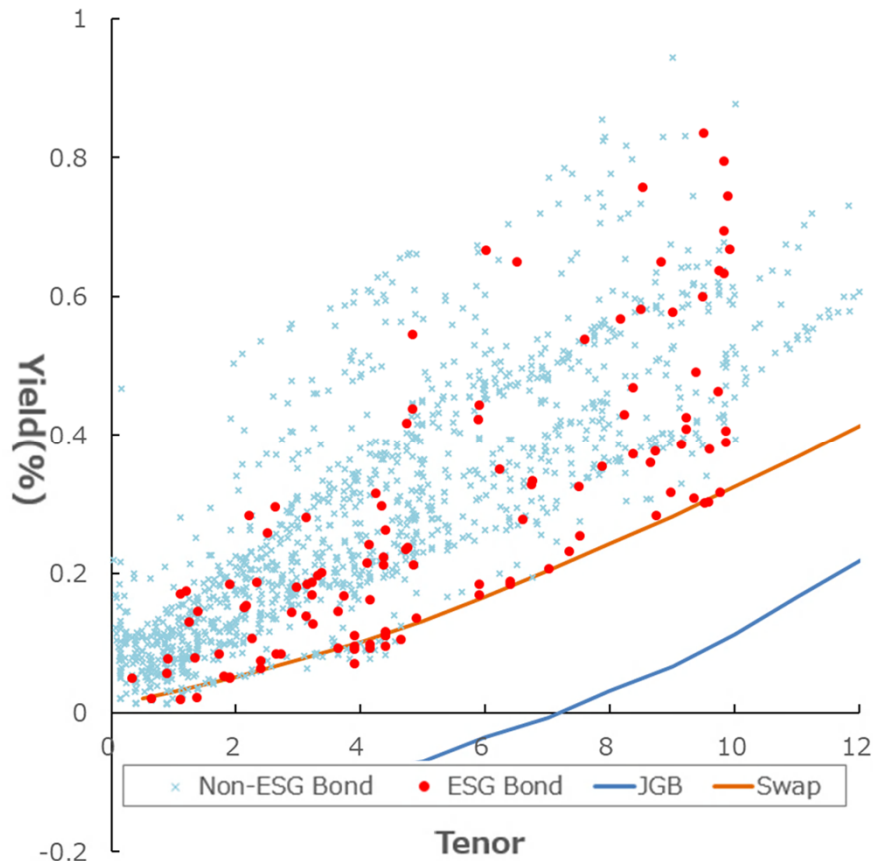




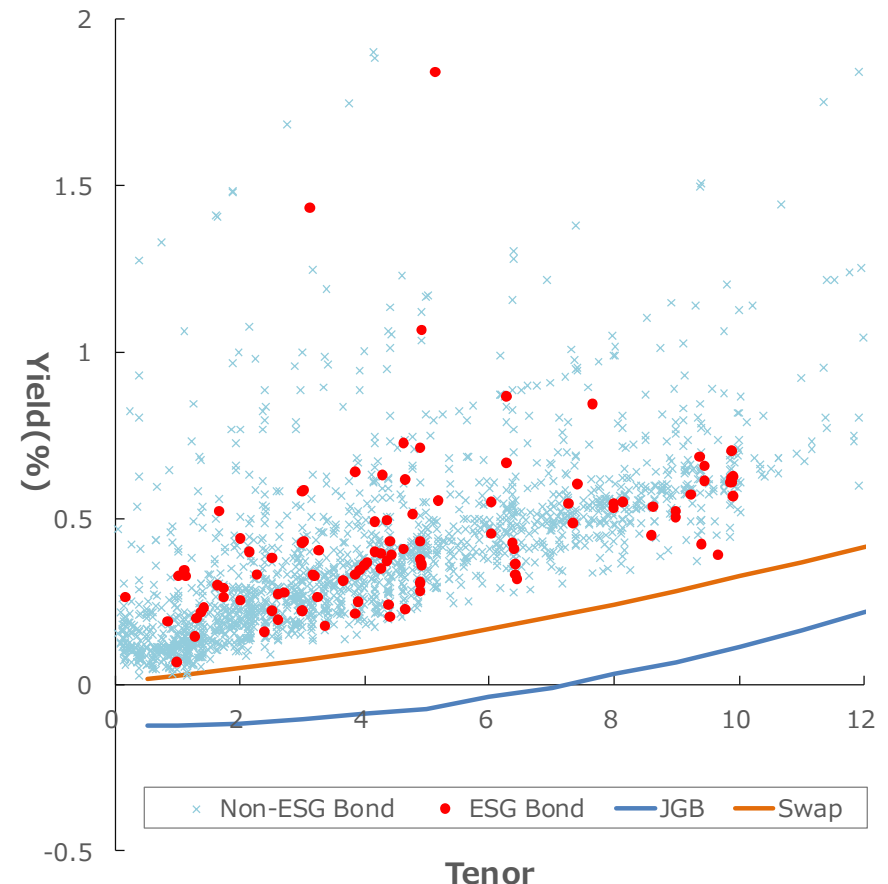
# Greenium in Japanese ESG market

- In the secondary market, ESG bonds yields are traded tighter than non-ESG bonds especially in high-rating zone
- BOJ's Climate Response Financing Operations(CRFO) could be one of the reason as investors could secure amount and get more benefit from CRFO than low-rating zone
- Investors may prefer ESG bonds to non-ESG bonds in primary market because of this resilience to market volatility after purchase

## Yield comparison of ESG and Non-ESG bonds(AAA/AA)



## Yield comparison of ESG and Non-ESG bonds(A BBB)





# Greenium in Japanese primary market

- We can also see the greenium on primary market in power sector which issued both straight and ESG bonds during April and May
- Green and transition bonds alleviated the widening pressure compared to straight bonds

## Comparison on 5 year bonds in power sector

Issuer	Pricing Date	Bond Type	Amount (Bil JPY)	Coupon	Spread (vs JGB)
Tohoku Electric Power	6-Apr	Straight	40	0.340%	30.0bp
	27-May	Straight	20	0.400%	38.0bp
					8.0bp widening
Kyusyu Electric Power	7-Apr	Straight	45	0.360%	32.0bp
	18-May	Transition	30	0.350%	33.5bp
					Only 1.5bp widening
Kansai Electric Power	8-Apr	Green	30	0.330%	29.0bp
	20-May	Straight	20	0.390%	37.5bp
					8.5bp widening

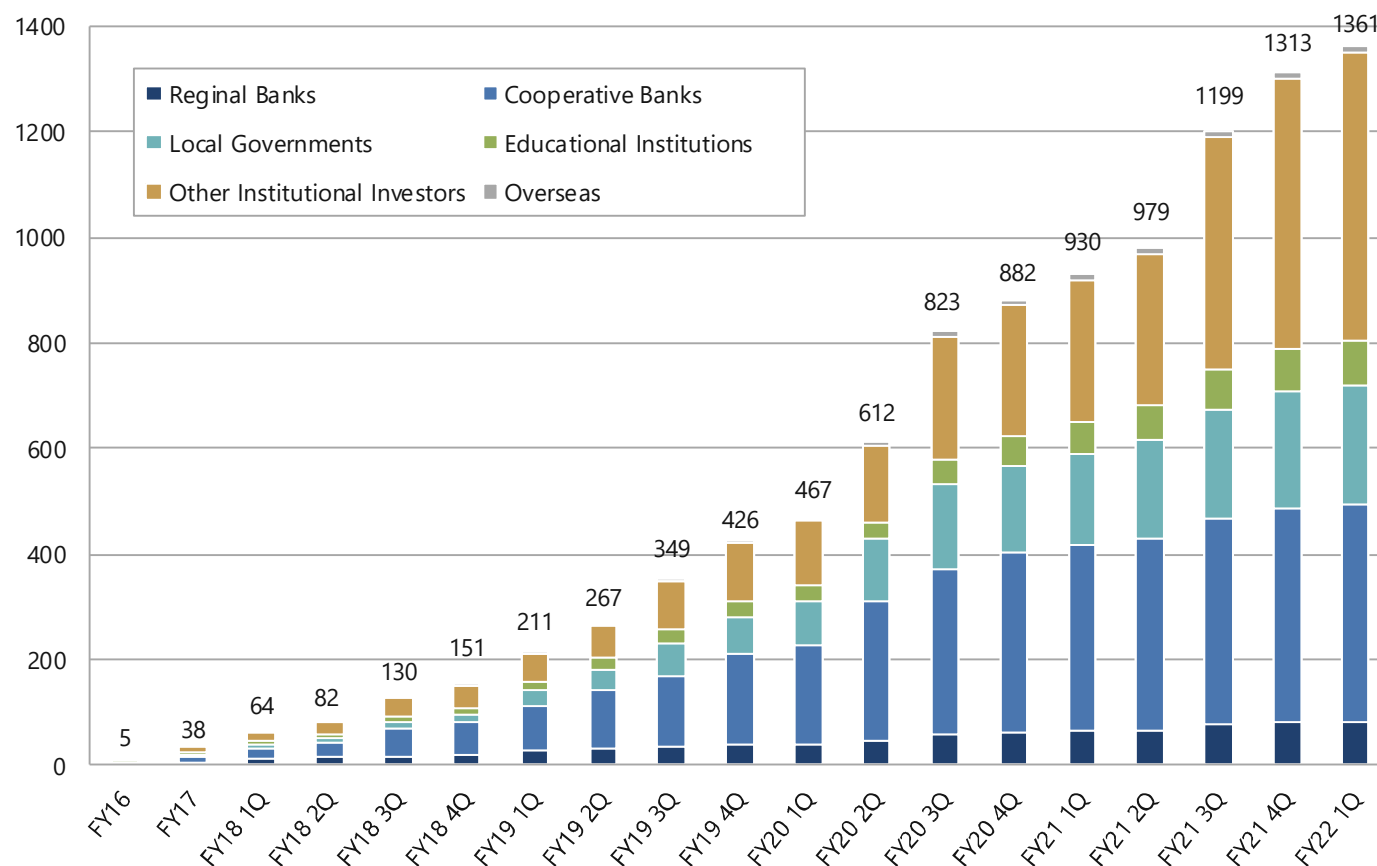
## Comparison on 10 year bonds in power sector

Issuer	Pricing Date	Bond Type	Amount (Bil JPY)	Coupon	Spread (vs JGB)
Tohoku Electric Power	6-Apr	Straight	40	0.574%	35.0bp
	27-May	Green	10	0.634%	40.0bp
					Only 5.0bp widening
Kyusyu Electric Power	7-Apr	Straight	33	0.589%	36.0bp
	18-May	Transition	25	0.644%	40.0bp
					Only 4.0bp widening
Kansai Electric Power	8-Apr	Green	25	0.574%	34.0bp
	20-May	Straight	15	0.664%	42.0bp
					8.0bp widening

# More investors declaring ESG investment

- Based on the increase of ESG awareness, many investors started to declare when they actually invest ESG bonds
- This trend is also welcome for issuers as it can show the support from investors and could have a positive effect for future issuance
- A lot of issuers thus disclose the name and the numbers of investors on their website
- The increase of Cooperative Banks and other institutional investors lead to the expansion of ESG investors

## Trend of cumulative number on investment declaration



# Passion for SDGs -Daiwa Group SDGs Declaration-

- Daiwa Securities Group recognizes Sustainable Development Goals adopted by the United Nations in 2015 as overarching goals to lead the world. Through our group business, we will work actively for realization of a prosperous society and improved people's life by pursuing both company's economic values and solution of social challenges at the same time.

## Creation of Shared values

- As an integrated securities group that provides wide range of services for various customer needs, we will address solutions of social challenges with flexible mindset to create company's economic values and social values at the same time.

## Stakeholders and Partnership

- By utilizing our group quality of taking a leading role in connecting countries, companies and investors, we aim for contribution to various social business solutions through partnership with each of our stakeholders.

## Developing and realizing work styles for diverse human resources

- With measures like promotion of better work-life balance and success of female and veteran employees to create working environment in which our employees, regardless of their gender and age, would feel satisfying to work and they would demonstrate their potential fully, we will endeavor to develop diverse human capital and work styles.

## Increase recognition and enhance penetration

- We will try to increase awareness and deeper understanding of SDGs among both our employees and customers through our group business as a main player in financial and capital market.



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- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements\*\*.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

\* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

\*\* The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

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