

Public Finance Watch

FICC Research Dept

Portion of GX Economy Transition Bonds not issued as Climate Transition JGBs

- Not all GX Economy Transition Bonds are issued as Climate Transition JGBs
- Climate Transition JGBs have acquired third-party certification and are issued separately from other JGBs
- Administrative costs, interest expense not applied to Climate Transition JGBs' use of proceeds; bonds for which such (modest) costs are applied are consolidated/issued with other government bonds



Koji Hamada

81-3-5555-8791

kouji.hamada@daiwa.co.jp

Daiwa Securities Co. Ltd

The issuance of GX Economy Transition Bonds began in FY23 and the first Climate Transition JGB auction was held in February 2024. Climate Transition JGBs are issued separately from other JGBs. However, not all GX Economy Transition Bonds are issued as Climate Transition JGBs. GX Economy Bonds for which (modest) administrative costs and interest expense are applied are consolidated and issued with other government bonds.

The Climate Transition JGBs, within the GX Economy Transition Bonds, have acquired third-party certification and are issued separately from other JGBs. MOF included the following note (Note 5) in [the calendar-based market issuance section of its FY24 JGB Issuance Plan](#).

“Japan Climate Transition Bonds” means GX Economy Transition Bonds and its refunding bonds issued as new financial instruments based on a framework regulating the use of proceeds.

Not all GX Economy Transition Bonds are issued as Climate Transition JGBs. This is because administrative costs and interest expense are not applied to the Climate Transition JGBs' use of proceeds.

GX Economy Transition Bonds not issued as Climate Transition JGBs are issued together with other JGBs, including new JGBs, refunding bonds, and FILP bonds.

For example, the 10-year bonds auctioned on 5 March were issued together with JGBs under three legal provisions. Specifically, Article 7, Paragraph 1 of the Act Concerning the Promotion of a Smooth Transition to a Decarbonized Economic Structure (GX Promotion Act) (= GX Economy Transition Bonds), Article 46, Paragraph 1 of the Act on Special Accounts (= refunding bonds), and Article 47, Paragraph 1 of the Act on Special Accounts (= front-loading issuance of refunding bonds).

Among the GX Economy Transition Bonds issued in FY23, it is estimated that the issuance involving administrative costs and interest expense was negligible. Perhaps the bulk of the 10-year bonds auctioned on 5 March were refunding bonds and front-loading issuance of refunding bonds. We can later confirm the actual break down and amounts as that information will be provided in an official MOF gazette.

The amount of GX Economy Transition Bonds issued is still small, but as issuance increases, interest expense will also increase. The amount of GX Economy Transition Bonds that are not Climate Transition JGBs is also expected to increase.

IMPORTANT

This report is provided as a reference for making investment decisions and is not intended to be a solicitation for investment. Investment decisions should be made at your own discretion and risk. Content herein is based on information available at the time the report was prepared and may be amended or otherwise changed in the future without notice. We make no representations as to the accuracy or completeness. Daiwa Securities Co. Ltd. retains all rights related to the content of this report, which may not be redistributed or otherwise transmitted without prior consent.

Ratings

Issues are rated 1, 2, 3, 4, or 5 as follows:

- 1: Outperform TOPIX/benchmark index by more than 15% over the next 12 months.
- 2: Outperform TOPIX/benchmark index by 5-15% over the next 12 months.
- 3: Out/underperform TOPIX/benchmark index by less than 5% over the next 12 months.
- 4: Underperform TOPIX/benchmark index by 5-15% over the next 12 months.
- 5: Underperform TOPIX/benchmark index by more than 15% over the next 12 months.

Benchmark index: TOPIX for Japan, S&P 500 for US, STOXX Europe 600 for Europe, HSI for Hong Kong, STI for Singapore, KOSPI for Korea, TWII for Taiwan, and S&P/ASX 200 for Australia.

Target Prices

Daiwa Securities Co. Ltd. sets target prices based on its analysts' earnings estimates for subject companies. Risks to target prices include, but are not limited to, unexpected significant changes in subject companies' earnings trends and the macroeconomic environment.

Disclosures related to Daiwa Securities

Please refer to https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/e_disclaimer.pdf for information on conflicts of interest for Daiwa Securities, securities held by Daiwa Securities, companies for which Daiwa Securities or foreign affiliates of Daiwa Securities Group have acted as a lead underwriter, and other disclosures concerning individual companies. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

Explanatory Document of Unregistered Credit Ratings

This report may use credit ratings assigned by rating agencies that are not registered with Japan's Financial Services Agency pursuant to Article 66, Paragraph 27 of the Financial Instruments and Exchange Act. Please review the relevant disclaimer regarding credit ratings issued by such agencies at: https://drp.daiwa.co.jp/rp-daiwa/direct/reportDisclaimer/credit_ratings.pdf. If you need more information on this matter, please contact the Research Production Department of Daiwa Securities.

Notification items pursuant to Article 37 of the Financial Instruments and Exchange Law

(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)

If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, our company will collect a trading commission* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥2 million per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- 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.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities Co. Ltd.

Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108

Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association, Japan Security Token Offering Association