2026 FSS International Conference

Japan’s Policy Framework and Recent Developments

2 September, 2026

Financial Services Agency, the Government of Japan

Investment in GX (Green Transformation)

- The Japanese government estimated investment of 150 trillion yen over the next ten years toward GX in Japan will be necessary.
- To realize the large amount of investment, the government produced a comprehensive 10-year roadmap for GX investment with five new policy initiatives in Feb, 2023.

Five policy initiatives to be included in “10-year roadmap for GX”

①Establishment of new government bonds for GX, “Climate Transition Bonds”

- Materialize "Pro-Growth Carbon Pricing“
- Procure prior government funds through new government bonds for GX, “Climate Transition Bonds”

②Investment promotion measures that integrate regulations and support

- Maximize the effectiveness of fiscal mobilization
- Establish a new institutional framework that enhances business profitability and investment predictability

③ Step by step development of carbon pricing scheme (GX-ETS)

- Starting a trial operation of voluntary emissions trading scheme within the GX League in FY 2023
- Full operation of the GX-ETS in FY 2026
- Introducing auctioning of allowances for electricity generation utilities in FY 2033

GX

Green Transformation

150 trillion yen investment (10 years)

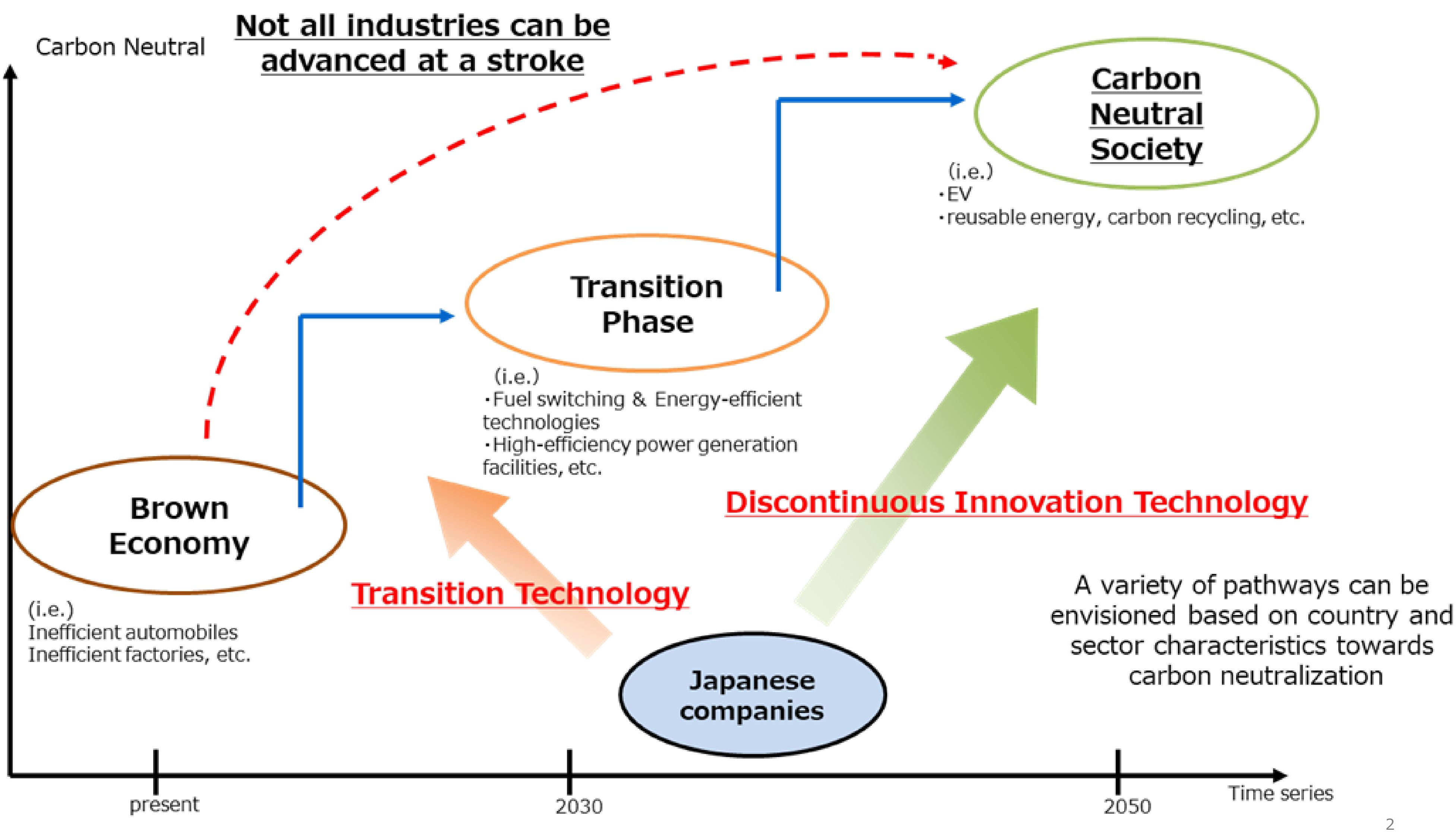
④Utilizing new financial instruments

- Attract global ESG funds by combining green, **transition**, and innovation finance
- Enhance corporate disclosure, improve the credibility of ESG evaluation, and develop an infrastructure for data provision

⑤Strategies for international expansion

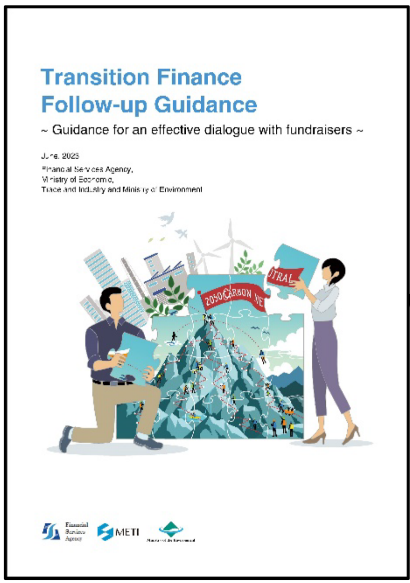
- Strengthen cooperation to promote decarbonization in Asian countries by realizing the Asia Zero Emissions Community

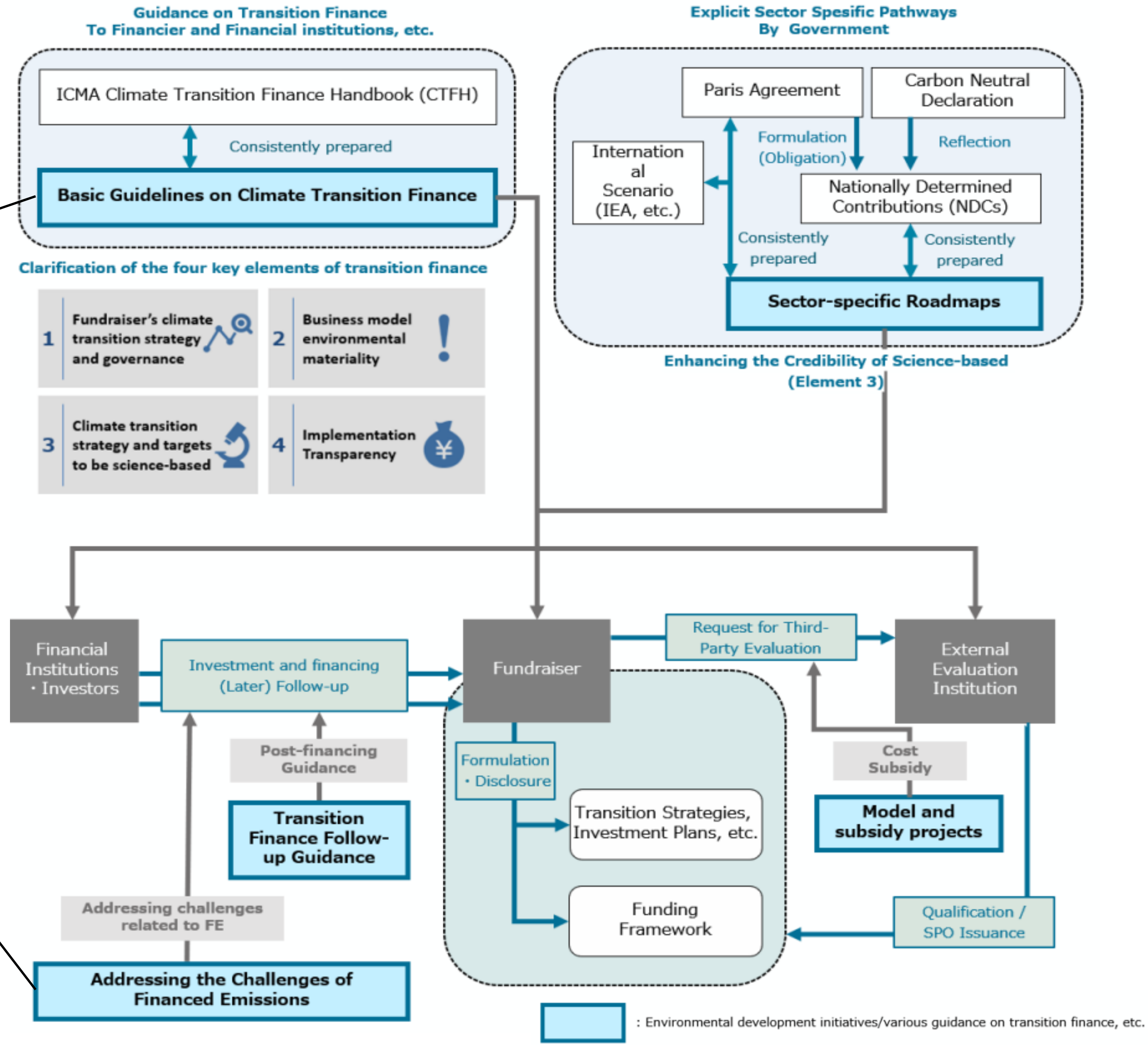
Transition Finance



Source:METI https://www.meti.go.jp/english/policy/energy_environment/transition_finance/index.html

Overview of Transition Finance Environment Development Measures





Source: Excerpts from "FRTF: Fundamental Review of Transition Finance Japan Public-Private Working Group's Report on Scaling "Inclusive" Transition Finance in the ASEAN Region July 2025" (Financial Services Agency, Ministry of Economy, Trade and Industry, Ministry of the Environment)

The Sub-WG on Promoting Transition Finance in Asia "Interim Report" (Summary) (2025)

- The Japanese government has formulated the "Basic Guidelines on Transition Finance" and contributed to the formation of a market for labeled financial products. However, a common international understanding has yet to be established, and meeting the financial needs of emerging and developing countries remains a challenge.

- In Asia, rapidly increasing energy demand due to population growth and economic development, the difficulty of relying solely on renewable energy, and emissions structures centered on manufacturing industries are key characteristics. Achieving each country's NDCs and long-term goals is estimated to require hundreds of trillions of yen. At the same time, globally-active financial institutions are committed to alignment with the Paris Agreement, and must demonstrate the eligibility of financing as "transition" finance.

- In Asia, much of the financing is loan-based, and many companies are unlisted, making it difficult to fit into the frameworks assumed by ICMA's Climate Transition Finance Handbook (CTFH). While it is desirable to increase financial products aligned with the CTFH and Japan's Basic Guidelines, this alone is insufficient to meet the required scale of financing for achieving the Paris Agreement goals.

- Therefore, transition finance is considered in two layers:

  1. Labeled Transition Finance: Financing based on ICMA principles and Japan's Basic Guidelines.
  2. Broadly Defined Transition Finance: Financing for projects that contribute to NDCs and long-term goals.

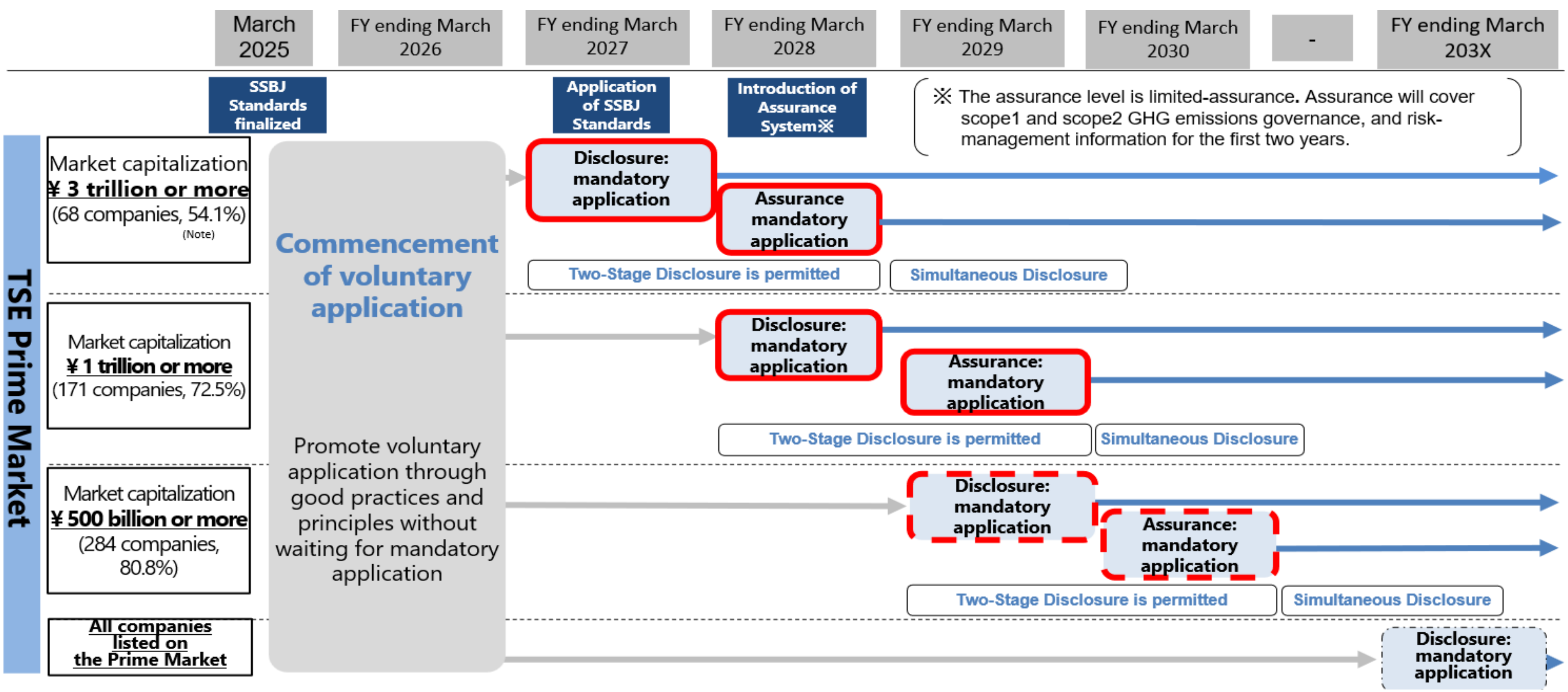
- To increase financing for Asia's transition, the second approach (Inclusive Approach) is crucial. In doing so, monitoring by financial institutions and institutional design by governments are important, especially to address concerns such as carbon lock-in. For cross-border investments and loans, inter-governmental dialogue can help enhance credibility, and Japan is supporting this through frameworks such as AZEC.

- Going forward, it is expected that international discussions will foster a shared understanding of the importance of transition finance beyond labeled products, and promote public-private collaboration to ensure credibility, thereby supporting the decarbonization of the real economy.

Source: Translated by the Financial Services Agency based on the summary document from the Ministry of Economy, Trade and Industry (METI) website titled "On the Promotion of Transition Finance in Asia."

Proposed roadmap for application of SSBJ standards and assurance in Japan

- Application of SSBJ Standards
  - The FSA will require companies listed on the Prime Market, a market for companies that focus on constructive dialogues with global investors, to prepare annual securities reports in accordance with the SSBJ standards.
  - A transitional two-stage disclosure approach will be permitted for a period of two years from the start of application.
- Assurance
  - Limited-assurance will be mandated from the fiscal year following full disclosure. Transition to reasonable assurance will not be discussed.
  - Assurance will cover scope1 and scope2 GHG emissions, governance, and risk-management information for the first two years. Expansion of the coverage from the third year on will continue to be discussed considering related practices and global situations.



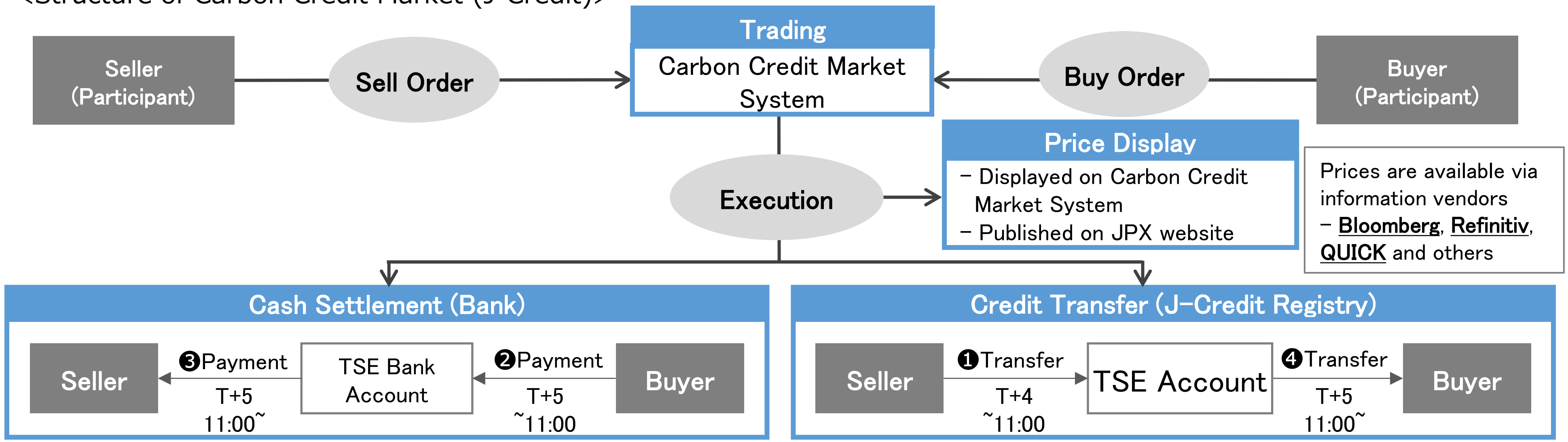
J-Credit Scheme and Trading market inTokyo Stock Exchange

- In April 2013, the Government of Japan **established the J-Credit Scheme** (non-statutory scheme) to certify credits for CO_2 emission reduction and absorption efforts in Japan.
- In October 2023, **the Tokyo Stock Exchange launched the Carbon Credit Market** as a trading platform to increase liquidity and publicly announce prices of J-Credit. By July 2025, 333 entities had been registered as market participants, with a cumulative executed trading volume of approximately 880,000 tons.

<Overview of Carbon Credit Market >

Overview	
Items Eligible for Trading	J-Credit
Market participants	Corporation, government, local public entity, or voluntary organization (individuals are not allowed)
Trading Method	Call auction 11:30 a.m. and 15:00 p.m. (based on price priority)
Order Acceptance Hours	8：00-11：29 / 12：30-14：59
Trading Categories	9 categories sorted by project type （for J-Credits)
Settlement Date	Sixth business day from day of execution (T+5)

<Structure of Carbon Credit Market (J-Credit)>



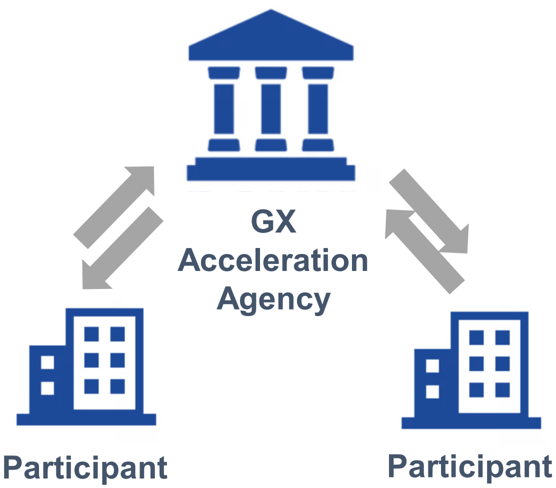
Source: Prepared from materials provided by JPX (Japan Exchange Group)

The Design of New GX Emissions Trading System in Japan

- The basic design of **the GX Emissions Trading System (Mandatory participation)** was set out in the bill approved in 28 May 2025. The new is scheduled to be in its full operation in FY 2026.
- Japanese FSA **will formulate high-level principles** that trading participants and exchanges should take into account in order to enhance the transparency and soundness of carbon credit transactions.

(1) Participation requirement

- **Mandatory participation** by corporates with direct CO2 emissions above 100,000t-Co2
- Some of **the financial institutions and trading companies** can participate if they meet certain criteria



(2) Allocation

- Free allocation of emission allowances based on government guidelines
- Some adjustments apply considering carbon leakage risk, GX-related R&D etc.
- Excess allowances can be traded or banked. J-Credit and JCM are allowed to use

(3) Operator

- The GX Acceleration Agency will operate the market to facilitate emissions trading and set appropriate prices

(4) Price stabilization measures

- Set upper and lower limit prices
- Improve predictability for corporates' investment decisions and to prevent excessive impacts on the national economy

(5) Transition plan

- Require relevant corporates to formulate and submit medium- to long-term emission reduction targets and plans that describe how to achieve them

Working Group on Financial Infrastructure for Carbon Credit Transactions – Summary of Report

- **Carbon credits** are expected to play an important role in achieving **carbon neutrality in 2050** by providing economic incentives for decarbonization etc. **The transactions are expected to further expand and diversify**, triggered by the full-scale operation of the emissions trading system (ETS) in Japan from FY2026. Under these circumstances, as with other financial assets, **it is important to ensure investor protection by improving the transparency and integrity of carbon credit transactions for their sound development**.
- This Working Group has been held since June 2024, conducted fact-finding regarding carbon credit transactions through interviews with relevant parties, mainly from the financial community, and **in June 2025 published a report summarizing the key issues related to improving the transparency and integrity of carbon credit transactions**.

I. Fact-Finding regarding Carbon Credit Transactions

Trading platforms, intermediaries, support for credit generation, structuring finance-related products, risk management, credibility rating, and tech utilization

II. Outline of the Key Issues

1. Basic Issues in Ensuring Transparency & Integrity

- ✓ Appropriate disclosure, prevention of conflicts of interest, and compliance
- ✓ Qualification of knowledge and experience.
- ✓ Ingenuity in practice and collaboration among relevant parties
- ✓ Legal nature and accounting treatment

2. Issues Related to Intermediaries & Credit Sellers

- ✓ Appropriate explanation and sales of products according to customer attributes.
- ✓ Ensuring customer-oriented business conduct
- ✓ Risk management in intermediaries

3. Issues Related to Exchanges & Trading Infrastructure

- ✓ Ensuring the accuracy of the registry and ensuring fair market access and transactions
- ✓ Risk management of trading and settlement infrastructure
- ✓ Standardization (data, contracts, product features, etc.)
- ✓ Considerations on derivative transactions
- ✓ Transparency and fairness of carbon credit rating agencies

4. Issues Related to Credit Buyers

- ✓ How to use carbon credit ratings and insurance services
- ✓ how to disclose information on carbon offsetting
- ✓ positioning of credits in users' climate strategies

Working Group on Financial Infrastructure for Carbon Credit Transactions – Key Issues (1)

II. Summary of Key Issues

1. Basic Issues in Ensuring Transparency & Integrity

A) Appropriate disclosure, prevention of conflicts of interest, and compliance

- Appropriate disclosure of information related to carbon credit transactions by relevant parties (standard setters and registries, trading platforms, sellers, and buyers) is crucial to ensure the transparency and integrity of transactions.
- The prevention of conflicts of interest is extremely important to ensure the integrity of the market.
- Compliance with applicable laws and regulations is also a prerequisite for ensuring the transparency and integrity of transactions.

B) Qualification of knowledge and experience.

- It is important to build up the capacity of each stakeholder in the ecosystem to cultivate knowledge and experience (literacy) on the treatment under the relevant framework, product features, and trading practices of carbon credits.

C) Ingenuity in practice and collaboration among relevant parties

- It is expected that the relevant parties will refer to good examples and best practices and link them to the development of the market.
- Collaboration among relevant parties, within and outside the region, and international stakeholders is also important.

D) Legal nature and accounting treatment

- It is important for the legal and accounting nature of carbon credits to be clarified to ensure predictability and stability in the handling of transactions (including effectuation requirements and perfection requirements for transfer). This is also important for increasing the number and sophistication of transactions (including collateralization and derivatives).

2. Issues Related to Intermediaries & Sellers

A) Appropriate explanation and sales of products according to customer attributes.

- It is important for the intermediary/seller of carbon credits to provide an appropriate explanation of the product features according to the attributes of the customer, when selling the product.
- When providing carbon credit related products, tokens, or services, it is also important to provide appropriate explanations on how carbon credits are incorporated and the product features of the incorporated credits.
- As individuals typically have more diverse objectives, knowledge, and experience, and a higher need for customer & investor protection compared to corporations, it is particularly important for providers to provide sufficient and robust explanations to client individuals.

B) Ensuring customer-oriented business conduct

- When the intermediary/seller is a financial institution, it is important to provide information to the buyer based on the purpose of the "Principles for Customer-Oriented Business Conduct" (since it is undesirable for the degree of customer protection to differ depending on the type of business of the seller, it is also important for non-financial institutions to provide information from the same perspective).

C) Risk management in intermediaries

- Appropriate management of operational risk, technology risk, and other risks is expected of intermediaries.

Working Group on Financial Infrastructure for Carbon Credit Transactions – Key Issues (2)

II. Summary of Key Issues

3. Issues Related to Exchanges & Trading Infrastructure

A) Ensuring the accuracy of the registry and ensuring fair market access and transactions

- It is important for streamlining of transactions to ensure the accuracy of credit registry and smooth transfer registration procedures.
- Regarding the eligibility of participants for trading platforms, a broad and fair distribution of trading opportunities would be beneficial from the perspective of enhancing price transparency and market efficiency by ensuring market liquidity.
- To ensure fair transactions on trading platforms, it is important for operators to set, monitor, and enforce appropriate rules.

B) Risk management of trading and settlement infrastructure

- Robust risk management on operational risk, counterparty risk, and other unsettlement risks in the trading infrastructure is important because it facilitates the functioning of the market and enhances its integrity and stability.

C) standardization (data, contracts, product features, etc.)

- Standardization of transactions is beneficial in overcoming fragmentation and expanding and scaling markets.

D) Considerations on derivative transactions

- In preparation for a future in which derivatives trading will take place in Japan, it is important to advance research aimed at developing an environment that will ensure credibility, sophisticate risk management, standardize transactions, and organize legal issues.

E) Transparency and fairness of carbon credit rating agencies

- It would be beneficial for enhancing transparency and fairness that carbon credit rating agencies implement best practices for ESG rating agencies, such as measures to prevent conflicts of interest.

4. Issues Related to Credit Buyers

A) How to use carbon credit rating and insurance services

- Widespread use of carbon credit rating and insurance services could lead to more sophisticated risk management by buyers and more sophisticated services through economies of scale at rating agencies and insurance companies.

B) How to disclose information on carbon offsetting

- In case of offsetting by the buyer, the buyer is expected to make appropriate disclosures about the credits used for offsetting based on disclosure standards, guidelines, etc.

C) Positioning of credits in users' climate strategies

- It is important for users of carbon credits to give priority to emission reduction efforts within their own value chain and consider offsetting with credits as a complementary measure.

Thank you for your attention

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