

Principles for Financial Action for the 21st Century

Principles for Financial Action Towards a Sustainable Society (Principles for Financial Action for the 21st Century)

The Principles for Financial Action for a Sustainable Society (Principles for Financial Action for the 21st Century, PFA21) were compiled in October 2011 as a set of action guidelines for financial institutions that wish to fulfill their responsibilities and roles in the formation of a sustainable society. The initiative is characterized by the fact that it is positioned as a starting point for financial institutions operating in Japan to work together toward the creation of a sustainable society, without being limited by business type, size, or region. Signatory financial institutions are actively implementing initiatives based on the seven principles in order to lead social change.

This document provides basic information on PFA21. For more information, please visit the website <https://pfa21.jp/>



<https://pfa21.jp/>

Introduction

The earthquake and tsunami that struck eastern Japan on March 11, 2011, one of the largest in recorded history, revealed how helpless human beings are in the face of natural disasters. It was also a great shock that science and technology, which had supported our daily lives, had a serious impact on human society. Witnessing the fragility of the foundations of civilization revealed by "3.11," we were all forced to reconsider the meaning of sustainability.

On a global scale, there is concern that climate change and loss of biodiversity will cause unimaginable damage in the future. In addition, poverty and infectious disease risks are spreading, especially in developing countries, and threats to human security are becoming more serious. As we recover from the 3.11 disaster, we must also boldly tackle global challenges.

When the challenges facing Japan and the world are juxtaposed, the challenge to confront them will be the turning point for the next leap forward. If we can rebuild communities that use energy sustainably and are in harmony with the ecosystem through recovery efforts after the earthquake, this could be a model for the world as a social system for the 21st century. Herein lies the key to ensuring that finance continues to be needed and trusted by society. We can see a new role for finance in the 21st century in efforts to promote the formation of a sustainable society.

Preamble

If we define a sustainable society as one that satisfies the needs of the present generation while meeting the needs of future generations, then the present generation must earnestly work to solve the various problems surrounding people and the earth, not only for themselves but also for future generations, from the perspective of a preventive approach, and aim for a safe and secure life in harmony with nature.

The financial industry began to collaborate in solving global issues with the establishment of the United Nations Environment Programme Finance Initiative (UNEP FI) in 1992. Since then, its activities have expanded from environmental issues to social and corporate governance issues, and in 2006 it led the establishment of the Principles for Responsible Investment (PRI). In Japan, ESG investment, or investment activities that emphasize long-term corporate growth rather than the pursuit of short-term profits, has rapidly developed and expanded into the mainstream since the Government Pension Investment Fund (GPIF), the world's largest institutional investor, signed the PRI in 2015.

Companies are under pressure to pursue business models that enable sustainable growth while addressing social issues through their core business, and as seen in the agreement on the 2015 Sustainable Development Goals (SDGs), transformation is urgently needed on a global scale to address issues such as climate change, biodiversity, the circular economy, and human rights. In particular, with regard to climate change, the Paris Agreement, adopted at the 21st Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21), which calls for efforts to limit the rise in temperature to 1.5 degrees above pre-industrial levels, as a common long-term global goal, international decarbonization efforts are progressing. In Japan, the "2050 carbon neutrality goal" was declared in October 2020 and companies are required to accelerate their efforts even further. At COP26 held

in 2021, it was agreed to continue efforts to achieve the 1.5-degree target, demonstrating a strong will to realize the Paris Agreement.

We, Japanese financial institutions, must address issues specific to each region from a medium- to long-term perspective and work with diverse stakeholders to support the enhancement of regional value and, by extension, the competitiveness of domestic industries and the creation of new industries. In addition, as a member of the global community, we must contribute to a steady and just transition to a sustainable society on a global scale based on scientific knowledge.

To this end, and looking ahead to an uncertain future, it is necessary for us, financial institutions, to promote constructive dialogue (engagement) with companies that are pursuing both sustainable growth and solutions to social issues at the same time, aiming to create positive impact and mitigate negative impact, and to support sustainable growth of companies. As financial institutions in one of the world's largest economies, we have a very important responsibility.

These Principles are based on the will of the original Principles formulated in 2011 as a set of action guidelines for financial institutions that are concerned about the future of the earth and wish to fulfill their responsibilities and roles necessary for the creation of a sustainable society, and have been revised in 2022 as new Principles in light of changes in the external environment over the past 10 years and with a view to the future. These principles are intended to serve as a starting point for collaboration among like-minded financial institutions, regardless of business type, size, or region, just as the original Principles were in 2011. We, the signatory financial institutions, will proactively implement initiatives based on the following "Principles" in light of our own business activities and take the lead in social change.

Seven Principles

Principle 1 Basic stance

Recognizing the responsibilities and roles that financial institutions themselves play in creating a sustainable society, we will take the initiative in implementing the best possible activities through our respective businesses, with the aim of creating positive environmental, social, and economic impact and mitigating negative impact.

Principle 2 Contribute to a sustainable global society

We will lead the formation of a sustainable global society by developing and providing financial products and services that contribute to the creation and development of industries and businesses through innovation for the steady and just transition of society.

Principle 3 Contribute to the formation of sustainable local communities

We will lead the formation of sustainable local communities by supporting solutions to environmental, social, and economic challenges based on local characteristics and by improving local inclusiveness and resilience.

Principle 4 Human capital development

Recognizing the importance of human capital in financial institutions, we will develop human resources capable of thinking and acting independently on environmental and social issues.

Principle 5 Collaboration with diverse stakeholders

Recognizing the importance of collaboration among financial institutions and other diverse stakeholders in creating a sustainable society, we will not only participate in such efforts, but will also play a proactive role.

Principle 6 Build sustainable supply chains

We will proactively address environmental issues such as climate change and biodiversity, as well as human rights and other social issues, and build sustainable supply chains through constructive engagement with our business partners and other stakeholders, including those to whom we make investments and loans.

Principle 7 Information disclosure

Recognizing that activities to enhance social sustainability are a managerial challenge, we will disclose information on our initiatives to a wide range of stakeholders and make constant improvements, based on domestic and international trends and disclosure frameworks.

In addition to the seven principles, the business-specific guidelines (Asset Management, Securities and Investment Banking Business Guidelines; Insurance Business Guidelines; and Deposit, Lending and Leasing Business Guidelines) established as action guidelines are relevant documents under PFA 21.

Main Activities

Working Groups

Seminars and study sessions are held in Working Groups on various themes related to ESG challenges.

Business-specific Working Groups

- Asset Management, Securities & Investment Banking Business Working Group
- Insurance Business Working Group
- Deposit, Lending and Leasing Business Working Group

Thematic Working Groups

- Environment & Real Estate Working Group
- Sustainable Local Communities Support Working Group



General Meetings & Extraordinary General Meetings

We hold the Annual General Meeting (March) and Extraordinary General Meeting (June). At the Annual General Meeting, an opinion exchange session is held as a place for sharing information and discussion on ESG and sustainability.



Cases of Best Practice

In order to broaden the base of initiatives by signatory institutions and to improve their advanced initiatives, we present the Minister of the Environment Award for the best initiative and the Principles for Financial Action for the 21st Century Steering Committee Chairperson's Award for the best initiative that is equivalent to the Minister's Award.



Signatories' Initiatives

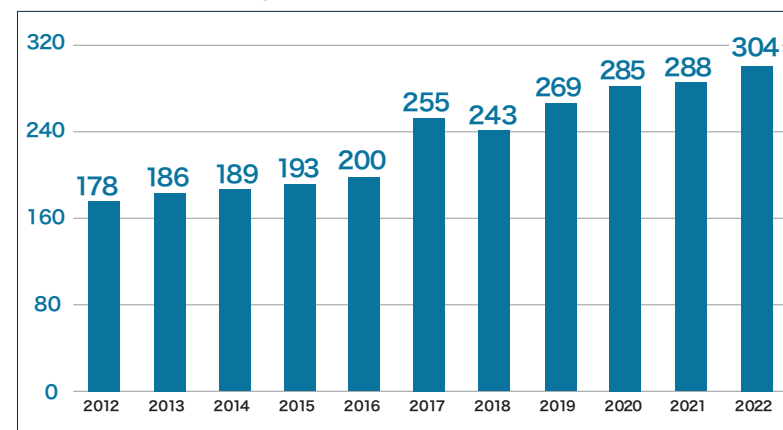
Submission of initiatives is the responsibility of the signatory organization as stipulated in the operating regulations. Submitted initiatives are published on the website and can be searched.



History

- June 2010** The Expert Committee on the Environment and Finance of the Central Environment Council proposed the establishment of "Principles for Financial Action for the Environment."
- September 2010** "Drafting Committee for the Japanese Version of the Principles for Financial Action for the Environment" began its work towards the establishment of the Principles.
- October 2011** Principles for Financial Action for the 21st Century adopted "Principles and Business-Specific Guidelines."
- November 2011** Principles for Financial Action for the 21st Century opened for signature.
- March 2012** The first Annual General Meeting held (thereafter held every March).
- May 2012** Business-specific Working Groups (Asset management, Insurance, Deposit & Lending) began their work.
- July 2012** Thematic Working Group on the Environment and Real Estate began its work.
- April 2013** Thematic Working Group on Local Communities Support began its work.
- October 2015** Taskforce on Independence of Organization set up.
- April 2017** PFA21 became a fully-independent organization.
- March 2019** Recommendations "Strategy to Take to Become an ESG Finance Superpower" released.
- October 2019** "Emergency Recommendations on Financial Action towards a Decarbonized Society" released.
- October 2021** 10th anniversary commemorative event held.
- April 2022** Message "On Ukrainian Situation" released.
- June 2022** Revision of 7 Principles and Preamble.
- February 2023** Revision of Business-specific Guidelines.

Number of PFA21 Signatories (as of March end, each year)



Organization Chart

General Meeting

Members All signatories/co-chairpersons from two organizations elected from among the members preside over the meeting.

Frequency Once every year in principle (Extraordinary General Meeting can be held)

Matters for resolution Resolutions are adopted on the following matters:

- Election and termination of Steering Committee members and inspectors
- Revision of the Principles, revision of the Operating Regulations, and others.

Chairperson

Steering Committee

Members 10 organizations in principles; financial institutions elected by the General Meeting (term: two years)

Frequency Twice a year in principle

Matters for resolution Resolutions are adopted made on the following matters:

- Agenda items to be discussed at the General Meeting
- Promotion of the Principles; Setting up of Working Groups
- Minor revision of the Principles and Regulations; Approval of the revision of the Guidelines
- Selection of the Steering Committee Chairpersons, and others.

Chairperson

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Working Groups

Business-specific Working Groups

Chair

Asset Management, Securities & Investment Banking Business Working Group

Chair

Insurance Business Working Group

Chair

Deposit, Lending and Leasing Business Working Group

Thematic Working Groups

Chair

Environment & Real Estate Working Group

Chair

Sustainable Local Communities Support Working Group

Working Groups are set up as necessary.

Frequency of meetings

Twice a year, depending on the Working Group

Activities

Themes are set by the Chair of each Working Group

Inspectors

Members Two organizations in principle; financial institutions elected by the General Meeting (term: two years)

Duty Audit of the assets and financial reports of the PFA21.

Secretariat

Elected by the Steering Committee and approved by the General Meeting.
Global Environmental Forum

Partner

Ministry of the Environment

21st Century and Finance

I am very pleased to see the birth of the Principles for Financial Action Towards a Sustainable Society. It is a historic achievement for Japanese finance. But why are the "Principles" being developed at this time? What is behind it?

Needless to say, there has never been a time when daily life has become more convenient than now. There has never been a time when humankind has gained so much power as now. This and that is thanks to the economic development of the 20th century.

On the other hand, it was also the 20th century that brought about the most serious global-scale problems that humankind has ever experienced, such as global warming, biodiversity problems, poverty, and widening inequality.

It is a mystery. Why did the 20th century, in the shadow of affluence, cause unprecedented problems?

The answer is obvious. It is because the economy of the 20th century was wrong. Of course, the economy itself was not to blame. It was the "way of growth" of the economy that was wrong.

If this is the case, then the mission of the 21st century is to solve the problems left behind by the 20th century. It is because there can be no hope for the future without solving these problems.

So, how can we solve the problems? The only way is to replace the 20th century economy, which has continued to ignore externalities to prioritize growth, with a sustainable economy that takes a longer-term perspective.

This is where finance comes in. To begin with, the role of finance is to "channel money to where society needs it." However, the money it deals with is not its own, but rather "society's" money. This makes the responsibility even heavier.

The role of finance in the future will become clearer when we overlap the "fundamental function of finance" with the "mission of the 21st century." It is to "solve the problems" of the earth and society "through its core business." But doing so will also lead to the development of finance itself.

Originally, the responsibility of finance is heavy. This is because a single financial decision can change people's lives, industry, society, and even the nation. In addition, the recent earthquake disaster. Japan is now at a watershed moment and must make a tough choice. If Japan makes a courageous and wise choice, the sun will rise again. Sweat in that process. This is the new responsibility required of finance.

When I think of it this way, I am struck by the weight of the role and responsibility that Japan's financial sector must take on.

These principles are the fruit of the passion of those who work in finance. Each and every word is handmade from scratch. That is why I hope that many financial institutions will sign on to these principles and that many financial professionals will put them into practice.

In closing, I would like to offer my heartfelt thanks and respect to everyone involved, and I sincerely wish Japan and its finance, and by extension, the 21st century, the best of luck.



Takejiro Suetoshi

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For details including the process to become a signatory, please visit the website

<https://pfa21.jp/>

