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Feature Articles

This month's focus: **Asset Management Business in a Sustainable Society (12th SAAJ International Seminar)**

This paper discusses and summarizes the extant evidence on greenwashing from a corporate finance perspective. We discuss the factors that contribute to greenwashing within an agency-theoretic framework and the effects of greenwashing on firm value. We also review the inefficacy of third-party CSR/ESG ratings in dealing with the risk of greenwashing. We argue that the threat posed by greenwashing can be moderated only through a robust system of checks and balances, centered around a strong regulatory environment.

We identify similarities and uniqueness of four significant ESG scores. The Bloomberg score features information disclosure, while its counterpart is the MSCI score. Although simple in terms of methodology, the disclosure-oriented score is less likely to reflect ESG performance. At the same time, other scores partially reflect ESG performance but are also influenced by company size, profitability, and industry. The ESG score has multiple axes of evaluation, and the need to use them with care is reinforced.

In the new era of a 100-year life span, various frameworks have been set up to promote the shift from savings to asset formation. However, for individual investor financial plans, we must admit that there are not adequate or sufficient models to formulate and pursue regarding "target asset amount" and appropriate "investment ratio". This article attempts to construct a framework for the formulation and pursuit of individual investor financial plans applying an ALM model to pensions. This framework is intended to assist private investors' own efforts to complement their individual government pension.

Special Posting

Recently, "Corporate bond equity conversion" and "Equity conversion of corporate bonds" has been expanding, and has become a promising field for investors and issuers in a low interest rate environment. These specifically refer to subordinated corporate bonds and preferred stock.

Participating bonds are a type of corporate bond equity conversion. They refer to "corporate bonds that in addition to the payment of interest at a fixed interest rate, are required to pay additional interest as a disposal of surplus in accordance with certain standards". There are many cases of issuance in France, but no cases of such issuance in Japan.

There are no particular problems under the Companies Act regarding the issuance of profit-participating bonds. However, there are tax issues. Theoretically, it is desirable that interest and dividends in corporate financing have a neutral effect on corporate tax. In fact, in some countries, ACE (adjusted current earnings) and other measures have been introduced to ensure the neutrality of corporate tax financing methods.

I think it difficult to speedily introduce ACE in Japan. Neutrality can be ensured by using participating bonds. It seems that the efforts are also significant in terms of demonstrating the uniqueness of the Tokyo market and providing new investment categories to market participants.