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Due to rising ESG investment, the importance of ESG information disclosure is increasing. When disclosing ESG information, those concerned are urged to refer to ESG information disclosure standards such as TCFD recommendations, but, currently, there are multiple standards, so studies are underway to unify them. In addition, ESG information disclosure regulations are being introduced in various countries/regions referring to ESG information disclosure standards. Based on this situation, Japanese companies should prepare for the disclosure of an assortment of ESG information including that relating to climate change.

ESG Disclosure Gives Us a True Picture of Management ....*Chie Mitsui, CMA* 18

This article gives an overall view of ESG, sustainability disclosures, the mechanisms, and regulations, with some actual cases. In particular, in the current situation where regulation is not accompanied by standards or indicators, the disclosure framework is not standardized, and thus it is not easy to understand management ESG-related efforts and incorporate them into investor investment decisions. In light of these difficulties, this article considers what comprises good ESG disclosure and good ESG management.

Integrated Reporting Valuable from ESG Disclosure Perspective
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We see integrated reports as a corporate stakeholder management tool to increase long-term shareholder value, and propose that, focusing on the content from ESG perspectives, corporations should be aware of the balance among the 'specific cycle' of each stakeholder (for example the period or sense of time specific to investment horizons, human resource development, businesses and products, and environmental measures), not only with respect to disclosure but also desirable corporate management. Based on our experience in stewardship activities, integrated report consulting, and integrated report preparation, we give as many specific examples as possible and examine them.

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ESG Disclosure and Engagement Activities in Western Countries
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Looking at ESG disclosure and engagement using ESG information, Western countries are ahead of Japan. This paper summarizes how overseas investors are working on ESG engagement utilizing ESG information, based on previous research and disclosure by investors themselves.

In Section 1, we introduce stakeholder salience theory, a framework for dialog with companies shared mainly by European investors, and summarized the characteristics of ESG engagement. While the main purpose of ESG engagement is to contribute to long-term corporate value and reduce investment risk, there is a possibility of ambiguity regarding short-term activities and criteria for exercising shareholder power. Stakeholder salience theory has become a theoretical pillar for investors to effectively influence companies in such situations.

In Section 2, we examine the ESG reports of representative overseas ESG fund management companies and extract characteristic trends. We selected 10 funds with large global scale in terms of ESG investments on the assumption that such funds are likely to be very enthusiastic about ESG engagement and have high-quality human resources. Of the nine asset management companies that manage these funds, we analyzed the reports of eight for which stewardship and sustainability reports were available. We extracted engagement activity characteristics.

In Section 3, we applied the examples of engagement activities in Section 2 to the framework in Section 1, and summarized the characteristics of ESG engagement and ESG disclosure trends. What became clear was that urgency plays an important role as a driving force in bringing investors and companies together. In actual dialog, legitimacy is important in persuading investors to lean toward particular companies. In ESG engagement, voting rights and coercive power, which are usually emphasized in shareholder engagement, are not the mainstream, but rather various forms of normative and utilitarian power are.

In conclusion, we summarize that the driving force behind ESG engagement is urgency. The urgency of climate and GHG emission issues is expected to increase due to both growing social concern and institutionalization of new regulations and enhanced disclosure. In addition, movements to institutionalize and strengthen disclosure in the area of social issues, such as the social taxonomy currently under consideration, are expected to facilitate engagement in this area. In response to this trend, we can expect to see an increase in engagement on social issues, such as the ongoing formation of funds with social issue themes and synchronization with incidents and movements that raise some kind of social concern.

In response to these trends of increasing ESG engagement, the financial industry will be required to actively participate in international moves to standardize ESG disclosure, develop internal ESG engagement personnel, especially those with specialized knowledge, and establish cooperative systems with academia and environmental organizations. Japanese investors will need to create standards for ESG funds themselves, as well as build a consensus regarding the style of ESG engagement in Japanese corporate society.

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Rethinking ESG Investment: From Social and Environmental Factors other than Governance (4)

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This study examines the impact of environmental, social, and corporate governance (ESG) performance on society and corporate financial performance. We discuss the value of intangible assets considering the Inclusive Wealth Report of the United Nations as a complementary indicator to GDP. The empirical analysis is provided by showing the effect of ESG on events with a negative and big impact on securities markets, such as the COVID-19 pandemic. Our results confirm the risk-mitigating effect of ESG management.

Special Postings

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Investors' Unrealized Gains and Losses and the Low Volatility Anomaly
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When we measured the unrealized gains and losses of investors in the Japanese stock market using the capital gains overhang (CGO), we found that there were more stocks with unrealized losses than the return distribution of individual stocks indicated. The relationship between stock return volatility and future returns was negative for stocks with unrealized losses but positive for stocks with unrealized gains, suggesting that the psychological bias derived from prospect theory may be one interpretation of the results.

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