

Feature Articles

This month's focus: **Sustainability Investments and Monitoring**

Significance and Issues of ESG Evaluation Information: Putting “the Code of Conduct” into Practice

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This paper discusses future issues surrounding ESG evaluation information and evaluation organizations from a researcher's perspective, based on the Code of Conduct for ESG Evaluation and Data Providers that was established by the Financial Services Agency and on discussions at the Technical Committee for ESG Evaluation and Data Providers, etc., that led to the Code of Conduct. After touching on the significance and characteristics of ESG information from the perspective of diversity and comparability, the paper reconsiders the issue of variability in ESG evaluations, referring to suggestions from empirical studies, and also discusses the evolutionary potential of ESG evaluation using AI, as well as issues related to reliability.

The Problem and Measures of Greenwashing in ESG Investing

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In the ESG investment field, there is growing concern that the lack of explanation and the diversified recognition or interpretation among market participants may lead to misunderstandings among investors. Criticism of “washing” has also arisen in reality. From the perspective of allowing investors to place their trust in the fairness and soundness of the securities market, it is natural for the authorities to have an interest in these issues. However, their supervisory measures are still in the process of development. In this paper, the two concepts of washing both in a narrow sense and a broad sense are explained. Also, an overview and insight on the current situation and the way to deal with the situation in the future is provided.

Evolution of Responsible Investment Reporting Implies Challenges for Portfolio Companies: the Importance of ESG Investment Education

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Since 2015, the ESG investment market in our country has been experiencing significant growth. The increasing sophistication of stewardship activities by asset managers can be understood from the responsible investment reports of each company. On the other hand, we are concerned that many managers and employees of portfolio companies do not fully understand the stewardship activities of asset management companies. In this paper, we argue and propose that ESG investment education targeting not only investors but also corporate managers and employees is necessary to increase both corporate sustainability as well as excess return on investment through constructive dialogue between investors and companies.

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Capital Market Challenges Posed by Increased ESG Investments: Progress in ESG Disclosure and Disagreement among ESG Rating Agencies

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In recent years, ESG (Environment, Society, and Governance) investment has become a major trend in capital markets. There is also a growing movement toward ESG rating agencies that provide third-party ESG scores and other information on ESG initiatives, their effectiveness, and the status of information disclosure. However, there are considerable inconsistencies and a lack of comparability across ESG rating agencies with regard to the content and level of ESG scores. In this study, we examine the ESG scores of major ESG rating agencies available in Japan and the level of disagreement among them, and find that the disagreement among ESG rating agencies is decreasing as corporate information disclosure becomes more thorough and comprehensive.

Article

Pricing on the Japanese IPO Market

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The author evaluated pricing on the Japanese IPO market, then found extreme initial price returns and overperformance of IPO stocks since September 1997, when issue prices started to be decided by the book-building method. These results are consistent with underpricing of issue prices due to the following factors: Japanese underwriters discount fair or theoretical values significantly to derive proposed issue prices, and underwriters cannot decide on final issue prices beyond an offered range during the book-building period by the Japanese regulators.