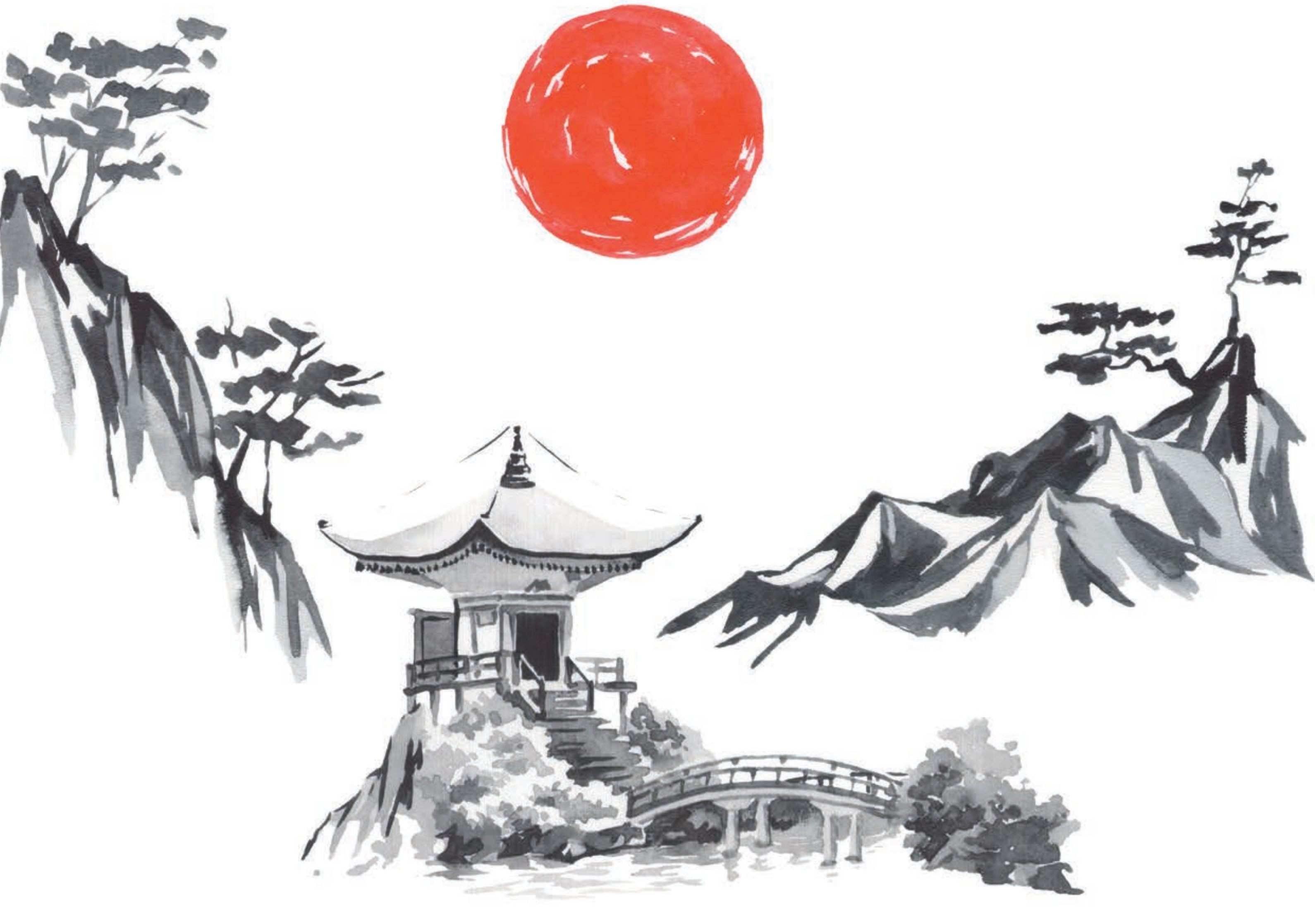
GlobalCapital
www.globalcapital.com

Japan in the Capital Markets

September 2022



Sponsors:

DBJ Development Bank of Japan

JBIC

JFM

JFM

Japan Finance Organization for Municipalities

Helping build vibrant regional communities

JFM, Japan's sole municipal finance agency, raises funds from the global debt market to provide concessionary financing to municipal entities for vital public projects including water infrastructure, transportation systems, and healthcare facilities.

January 2022 USD 750,000,000 1.500% 144A/Reg S Bonds Green Bond due 2025	**September 2021** EUR 1,000,000,000 0.100% Reg S Bonds due 2031	**April 2021** USD 1,250,000,000 1.125% 144A/Reg S Bonds due 2026	**February 2021** USD 1,250,000,000 1.375% 144A/Reg S Bonds due 2031	**February 2021** EUR 500,000,000 0.010% Reg S Green Bond due 2028	**September 2020** USD 1,500,000,000 0.625% 144A/Reg S Bonds due 2025
May 2020 USD 1,500,000,000 1.000% 144A/Reg S Bonds due 2025	**February 2020** EUR 500,000,000 0.050% Reg S Green Bond due 2027	**September 2019** USD 1,000,000,000 1.750% 144A/Reg S Bonds due 2024	**March 2019** USD 1,000,000,000 3.000% 144A/Reg S Bonds due 2024	**September 2018** USD 1,000,000,000 3.375% 144A/Reg S Bonds due 2023	**April 2018** USD 1,000,000,000 3.250% 144A/Reg S Bonds due 2023

Wholly owned by Japanese local governments
Highly experienced management
More than 60 years of excellence in supporting Japanese municipalities
Credit ratings equal to the Japanese national government sovereign rating
(Moody's: A1, S&P: A+)

Japan Finance Organization for Municipalities
Shisei Kaikan, 1-3 Hibiya Koen, Chiyoda-ku, Tokyo 100-0012, Japan
www.jfm.go.jp/en/

Issuers unleash Samurai bonds as yen market beckons

Samurai bonds have had a strong year so far as international issuers flock to the Japanese yen market for its relative stability and diversification option. The outlook is positive too — but borrowers will have to contend with increasingly cautious investors, writes **Manju Dalal**.

AMID A GLOBAL slump in capital markets activity this year, one segment of the bond market has stayed resilient: the Samurai market that has risen in popularity among global borrowers.

In the year to late August, 10 issuers raised $5.3bn-equivalent from Samurais — yen bonds sold in Japan by non-Japanese borrowers. This surpassed the $4bn of deals printed during the same time in 2021, according to data from Dealogic. In 2021, total Samurai volume stood at $6.4bn from 11 deals.

Other formats of yen bonds have also been in demand.

Up to the end of August, total yen issuance from non-Japanese borrowers across the Samurai market, the Euroyen market and the global yen market was $9.3bn — about $1bn shy of the volume recorded during the same period in 2021.

In 2021, global borrowers raised $15bn from 125 yen-denominated deals, mostly non-Samurais, Dealogic data shows. In 2020, total volumes stood at about $11.6bn from 71 deals, compared to $19.8bn from 69 deals in 2019.

Global issuers can access the Japanese market in various ways, but the most common formats are Samurai, global yen and Euroyen deals.

Euroyen bonds are yen deals issued in the Eurobond market by non-Japanese borrowers, while global yen bonds are denominated in yen but printed internationally. Unlike Samurai bonds, these deals are not registered with the Tokyo Stock Exchange and do not require the issuer to print their documents in Japanese — making them faster and easier to execute.

There is widespread optimism that 2022 will end on a strong note for international issuance in yen.

"If the market environment remains the same, we may probably exceed 2021's annual issuance," says Kazuma Muroi, an executive director in Mitsubishi UFJ Morgan Stanley Securities Co's debt syndicate team in Japan.

A senior DCM banker in Tokyo adds: "We have some well-known issuers in the pipeline that can print big deals." He reckons total yen bond volume from non-Japanese borrowers could touch $17bn in 2022. "I may be an optimist, but a jump in deal flow is possible."

The main reason for the optimism is issuers' need to diversify their funding options as interest rates rise globally.

Since the start of 2022, global markets have been in a state of turmoil, driven in part by the Russia-Ukraine war, fears of a US recession, higher inflation and poor growth in China.

"We may probably exceed 2021's issuance"

Kazuma Muroi, Mitsubishi UFJ Morgan Stanley Securities Co

In a bid to tackle inflation, many central banks have unleashed tight monetary policies, marking a turnaround from their approach of pumping money into the system during the worst of the pandemic.

In March, the US Federal Reserve hiked its benchmark interest rate by 25bp to the range of 0.25% to 0.50% — its first increase since 2018.

Since then, US interest rates have gone up further with a third 75bp hike expected at the end of September, which, if it goes ahead, will lift the benchmark rate to 3% to 3.25%.

In Europe, the European Central Bank raised its three key rates by 50bp in July, ending eight years of negative interest rates. Amid rising inflation, the ECB is also expected to keep boosting rates.

The Bank of Japan has taken a dramatically different tack. It has continued to maintain ultra-low rates, with the 10 year yield staying around 0%. Under BOJ's yield curve control policy, it sets a band around its 0% yield, allowing long-term rates to move in a range of positive to negative 0.25%.

But the global weakness has ensued longer than expected, causing some Japanese investors, such as pension funds, to take a more conservative approach, Muroi says.

"Their behaviour is mainly due to the impact of global market volatility, which also led to a softer domestic market."

Domestic tremors

Compared to the euro and dollar debt markets, the yen bond market has been relatively stable this year, helped on by the BOJ's loose monetary policy.

Global financial institutions and sovereigns are usually among the main issuers of Samurai bonds.

It was no different this year, with these credits outnumbering other global yen borrowers. Among the exceptions in 2022 were corporate issuers Korean Air Lines, which was the first Samurai bond issuer of the year in January when it raised ¥30bn ($204m), and French

Samurai bonds have risen in popularity as a funding tool as borrowers seek to diversify their funding options

carmaker Renault that sold a Samurai deal in June.

But while overall deal flow has picked up, borrowers have had to navigate some challenges, including wary investors.

"Even during volatility, basic demand persisted from investors, but they turned very selective on names," says Kaneyoshi Muramatsu, director and head of international yen syndicate at Mizuho Securities.

This meant the vast majority of the deals came from repeat borrowers and high-quality credits.

For instance, in April when volatility spiked globally in credit markets, the Philippine sovereign and private equity firm KKR & Co could print their respective Samurai and global yen deals. The Philippines raised ¥70.1bn from a four-tranche transaction where all the portions were labelled sustainability bonds. US group KKR netted about ¥60.5bn from a five-tranche outing.

The biggest Samurai bond of the year came in May, when the UK's Lloyds Banking Group raised ¥115.1bn from a six year non-call five Samurai.

All these issuers pulled off their deals thanks to their credentials and name recognition among investors.

But as global tremors touched Japan's local market, this unsettled some investors. Due to the rise in global rates, low-yielding Japanese assets including government bonds were sold by investors seeking higher returns, putting pressure on the currency.

"As long as issuers offer fair value, buy and hold type investors are willing to buy [their notes]"

Takayuki Isobe, Natixis Japan

The yen fell to a 24 year low against the dollar in mid-June.

The downward pressure on the local bond markets and currency dented investor sentiment, especially among large asset managers like pension funds. The Japanese government bond market, which is otherwise quite stable, witnessed unprecedented swings in yields, forcing investors to sit on the side, says Mizuho's Muramatsu. The cost of selling yen bonds climbed in May and June amid bets that the BOJ would have to change its loose monetary policy in line with other central banks.

However, when the BOJ, led by governor Haruhiko Kuroda, firmly stuck to its zero-interest policy, things stabilised from around mid-June. But some of the damage had already been done.

Investor choice

Apart from asset managers and pension funds, the other key investors in the Japanese bond market are life insurance companies, regional banks and offshore investors.

For the regional banks, the impact of global volatility is limited. But others like pension funds are sensitive to changes in global markets, as well as the outlook of BOJ's stance.

"Their [pension funds] participation is quite critical for the overall book size," says Muroi. He adds that lower participation of some investors has been seen in their small tickets compared to

Green and Beyond

- JBIC offers Japanese Government guaranteed bonds in wide range of maturities and currencies.
- We issued our first Green Bond in January 2022, and will go beyond for a "greener" world.

Jan 2022
USD 500,000,000
1.625% Guaranteed Bonds
(Green)
due 2027

Feb 2022
USD 1,250,000,000
2.125% Guaranteed Bonds
due 2029

Apr 2022
USD 1,500,000,000
2.875% Guaranteed Bonds
due 2025

May 2022
USD 1,000,000,000
1.500% Guaranteed Bonds
due 2029

Sep 2022
USD 1,500,000,000
3.875% Guaranteed Bonds
due 2025

- 100% Japanese Government-owned
- Leading issuer of international bonds explicitly guaranteed by the Japanese Government since 1983
- Moody's: A1 / S&P: A+

JBIC

JAPAN BANK FOR INTERNATIONAL COOPERATION

www.jbic.go.jp/en
E-mail: C0290@jbic.go.jp

their anchor bids last year.

Key fund managers can typically put in ¥5bn to ¥10bn bids each, which may tilt the balance of a deal, but they have come in with smaller takes this year.

"It's not an arbitrage driven market per se. It's more of a diversification for issuers"

Kaneyoshi Muramatsu, Mizuho Securities

Tokyo-based Takayuki Isobe, director, head of debt syndicate at Natixis Japan, says investors such as asset managers have also been quite conservative this year as they expect further widening of bond spreads as rates go up.

The absence of asset managers was palpable on some deals and their lower-than-expected sizes. Usually, sovereigns print deals around ¥100bn but none could reach that mark in 2022.

Some investor caution was visible in Mexico's $500m-equivalent Samurai deal that was priced in late August. Even though the sovereign hit its size target, Mexico dropped a seven year tranche and saw limited price tension. The deal was the first under Mexico's Sustainable Development Goals.

GlobalCapital understands that the Japan Bank for International Cooperation was an anchor investor in the long-dated tranches of Mexico, which has a strong relationship with the Japanese agency.

The shift in investor sentiment was also reflected in deals by some frequent borrowers. For example, French bank BPCE printed two multi-tranche deals in the past year — a ¥138bn six tranche transaction in December 2021 that spanned senior preferred, non-preferred and tier two debt and a ¥114.4bn multi-tranche offering in July 2022 with the same structure.

The tier two portion of BPCE's December deal attracted 80% asset managers, but that number dipped to 20% in July, Natixis's Isobe says. Investment bank Natixis was bought by BPCE in 2021.

But the good news is these investors are gradually coming back. For deals after the summer break, Muroi foresees more active participation from pension funds.

Mizuho's Muramatsu adds that asset managers, including pension funds, are slowly returning to the market, albeit still being selective and cautious on taking duration risk. "When speaking to them, the tone of their voice is a little more relaxed," he says.

Diversification opportunity

Like before, most non-Japanese issuers in the yen market are not seeking pricing benefit over their home market, says Muroi. "They [issuers] are more focused on the diversity of investor base and funding source, in addition to some aiming to raise yen for their business in Japan."

Muramatsu adds: "It's not an arbitrage driven market per se. It's more of a diversification for issuers."

Take for example Mexico's Samurai deal. The sovereign is believed to have paid 50bp to 100bp more than its dollar curve. Lloyds is also estimated to have paid a high single digit premium above its secondary dollar curve.

For emerging market sovereigns that have quite a big gap in funding costs between dollars and euros, the yen — not always but typically — sits between those two currencies, says Kaneyoshi.

Yet, there are exceptions, such as ANZ's ¥59.4bn 10 year non-call five tier two Euroyen deal that was priced in early September. The Australian lender is estimated to have printed 10bp tighter than its secondary curve. The deal got a ¥20bn bid from a life insurance firm, signalling a pickup in investor interest.

ANZ's deal was printed half a day earlier to avoid additional market risk. In Japan, book building happens over three to four days with deals traditionally priced in the Tokyo morning. This contrasts with offshore global bonds where intra-day execution or one day pre-marketing is the norm.

In the international yen market, investors compare the pricing of a deal to the home currency of the issuer or the absolute yen pricing. Depending on the type of issuer, the response from investors can be different.

For instance, in BPCE's July deal, around half of the bond went to regional Japanese investors as pricing was attractive to them, says Isobe.

BPCE's deal also offered some premium to where its euro bonds were trading.

Isobe agrees too that for most issuers, the yen market is more for diversification of funding sources or getting investors with decent size than an arbitrage opportunity.

Promising outlook

Issuers like BPCE that are committed to the Samurai market often make two visits in a year. The French lender is expected to return in October.

DCM bankers are also expecting some debut issuers to turn to yen, as well as some repeat borrowers from the US and Europe. An Asian sovereign issuer was also said to be eyeing a Samurai deal as *GlobalCapital* went to press. Among the major Asian sovereigns, Indonesia raised ¥81bn from a Samurai in June and the Philippines about ¥70bn from a sustainability Samurai in April.

Isobe expects more subordinated debt issuance in both domestic and international yen markets given there is good appetite from investors.

Under the Japanese law, debt sold by non-global systemically important banks and holding companies get treated as senior preferred bonds. Debt that is not counted towards G-Sibs' total loss-absorbing capacity receives lower risk weighting. For example, BPCE's transaction was treated as a traditional senior bond. It attracted more local investors thanks to the better risk treatment.

"As long as issuers [generally] offer fair value, buy and hold type investors are willing to buy [their notes]," says Isobe.

Expect more international issuers to seek out yen as global rates rise. GC

Japan's bond issuers adapt and stay agile

Volatile markets, geopolitical tensions, divergence in monetary policies and an impending changing of the guard at the Bank of Japan are all among the challenges Japan's leading issuers are getting ready to tackle over the next year. But their strong credentials and growing emphasis on environmental, social and governance factors mean they will still likely have the upper hand when it comes to tapping capital markets.

GlobalCapital sat down with some of Japan's leading state-backed bond issuers to discuss their concerns about market conditions and where they see funding opportunities — and how they are adapting to global volatility.

Participants in the roundtable were:

Takahiro Ando, director, finance department, Japan Finance Organization for Municipalities (JFM)

Shingo Kanatani, director, treasury department, Development Bank of Japan (DBJ)

Masahiro Ito, director, capital markets and funding division, treasury department, treasury and systems group, Japan Bank for International Cooperation (JBIC)

Moderator: **Rashmi Kumar,** editor, *GlobalCapital Asia*

GlobalCapital: We last spoke in April about your 2022 funding and the outlook for the year. A lot has happened since then — more interest rate hikes in the US, rising volatility globally and growing geopolitical tensions. Have things gone according to your plans and expectations? How have you had to adapt to the more challenging environment?

Takahiro Ando, JFM: JFM needs to raise ¥1.8tr ($12.8bn) in fiscal 2022, and at this point, we have been able to raise funds largely on schedule. First of all, the yen government bond market was in a phase of increased volatility. Despite that situation, we succeeded in issuing 10 year bonds on a monthly basis, as well as five, 20, and 30 year bonds as planned. In addition, Flip bonds — or the Flexible Issuance Programme bonds — which are issued in customised terms and amounts to investors, have been implemented through close communication with underwriting banks and investors.

The environment for non-Japanese yen denominated bonds was certainly difficult. The market environment did not calm down for the April/May window, when we issued foreign bonds in previous years, so we had to decide not to do so. On the other hand, while monitoring the market environment, we were able to issue two euro-denominated private placement bonds to institutional investors and an Australian dollar-denominated bond to retail investors. In addition, we are working towards the issuance of benchmark bonds after the summer vacation.

Shingo Kanatani, DBJ: We planned to proceed with our fundraising as quickly as possible in this highly volatile market. Things have largely gone according to plan so far, both domestically and internationally. To adopt to this challenging environment, we tried to execute our fundraising in the most flexible way in terms of issue timing, issue currency and issue size.

Masahiro Ito, JBIC: When I took my current position in May this year, it did not take long for me to notice that the market conditions in dollars were not in such a great shape. At that time, JBIC was originally looking into the market for a new dollar issuance. However, we chose to print our paper in euros after carefully studying the situation. At the end of May, we raised €1bn and the deal turned out to be quite successful, with a number of new investors joining the book. It was, in fact, the first time JBIC sold euro denominated bonds in 18 years.

Masahiro Ito
JBIC

As we have to meet fairly sizeable funding needs for this fiscal year up to March 2023, we sought an opportunity for another transaction after the euro deal in May. But since the market conditions were not at all easy before the summer vacation, we decided to wait.

During the summer, we looked into the market closely and had communication with investors and investment banks so that we could choose the right time and right product to bring to the market. We recently completed our three year dollar deal, and we will consider another one sometime later.

We have a sense that investors are coming back into the market. That's a different situation we see now compared to what it was like in June or July. We see investors have regained their interest and appetite in buying SSA paper. That's good news for us, because we will need to tap the market a few more times before the end of this fiscal year.

GlobalCapital: What kinds of questions are you hearing from investors when it comes to selling them bonds? Is that impacting the way you're looking at your own funding channels?

Kanatani, DBJ: We restarted face-to-face investor relations meetings with international investors recently. Of course, we continue online based IR meetings as well. The questions we are hearing from investors include our funding plan, our commitment and/or progress in sustainability activities, the impact of BOJ's monetary policy and weaker yen on our business and funding.

These questions generally don't have an impact on the way we are looking at our funding channels.

Ando, JFM: We have received many questions related to ESG bonds. We have issued green bonds in euros and US dollars, but we have established a project team that is now conducting internal research to expand ESG bonds and implement more sophisticated SDG initiatives.

Although this will not have an immediate impact on fundraising, we plan to listen to investors' opinions on SDG initiatives and reflect them not only in our funding plan, but also in our overall organizational efforts.

Ito, JBIC: We have had discussions with numerous investors since I started in my position in May. Most investors were interested to hear about our funding plans for the fiscal year. JBIC has $17bn of fundraising budget for this fiscal year. Although we may not be able to fund the full amount, we will need to tap the market a few times for the rest of the year.

As JBIC is the biggest liquidity provider for Japanese government-guaranteed bonds, we feel there is an expectation to tap the market on a regular basis in various tenors and currencies.

We also receive inquiries from investors with regards to our green bonds. JBIC issued its first green bond in January this year, and we plan to issue a second one this fiscal year.

From the communication with investors, what is ultimately important for an issuer is to choose the right tenor in the right currency and come to the market at the right timing at the right price level.

GlobalCapital: The Bank of Japan continues to remain dovish on its monetary stance at a time when other major Western economies are raising rates. How is that expected to impact the Japanese economy and its capital markets — and your own funding plans?

Kanatani, DBJ: BOJ continues to have a dovish monetary stance based on the view that the Japanese economy is not strong enough and current inflation rate of around 2% to 2.5% is temporary. Maintaining a low interest rate environment is basically favourable for the Japanese economy, but we need to carefully monitor the foreign currency market trends and their impact on the economy and commodity prices.

For the capital market, due to the BOJ's consistent stance of keeping its yield curve control policy, the distortion in the 10-year area in the interest rate curve was removed. This could have a positive impact on investor sentiment. But the BOJ's move not to raise rates has not changed and will not probably change our fundraising profile and debt currency breakdown.

Ito, JBIC: What differentiates us from other Japanese SSA issuers is that most of our assets (that is loans) and debt are denominated in dollars, and thus our funding needs are mainly in dollars. We do not make swap arrangements to convert dollar or euro proceeds to Japanese yen. Therefore, BOJ's monetary policy does not have a strong impact on our business directly.

On the other hand, the difference between the interest rate in yen and dollars has led to a large weakening in the Japanese yen, and this may have some impact on the Japanese economy.

To give an example, while JBIC supports those Japanese companies to make investments outside Japan, the weakening yen could become an impediment for our clients to expand their business overseas.

Takahiro Ando
JFM

Ando, JFM: We believe that differences in monetary policy between the BOJ and other central banks have limited potential impact on the Japanese economy and capital markets at this time. However, we believe volatility must be kept in mind as the uncertain environment continues, and we feel it is necessary to keep a close eye on the market going forward.

Although the BOJ's monetary easing policy itself has not directly affected our funding, if market participants' views on the BOJ's policy differ and volatility in the Japanese government bond market increases, as it did in June, it may have an impact on JFM's funding. However, JFM can issue bonds in a wide range of tenors, from five to 30 years, in the yen market, and in many foreign currencies such as dollars, euros, sterling, Australian and New Zealand dollars, allowing it to flexibly select funding instruments depending on the market at that time.

GlobalCapital: What are some of the key challenges you're expecting to face in the rest of 2022 and early 2023?

Kanatani, DBJ: Market volatility is still super high due to the combination of headlines on inflation, tight monetary policies, potential recession and geopolitical risks, and investor sentiment changes so quickly on a daily basis. In these circumstances, the key challenge for us in the rest of 2022 and early 2023 will continue to be international bond issuance. We need to decide on timing and pricing with the utmost caution.

Ito, JBIC: Given the circumstances where it is hard to predict how many more interest rate hikes we will see, especially in dollars and euros, we may forecast some more turbulence in the market towards the end of 2022 and early 2023.

Again, we feel picking the right product at the right level of spread at the right time will be extremely important. In order to do so, it will be essential to maintain dialogue with investors and the market, so we don't make mistakes and pick the wrong product at the wrong spread and at a wrong time. As long as we keep those in mind, I believe we should be fine.

Ando, JFM: We expect the market environment to remain volatile due to the monetary policies of various central banks, the situation in Ukraine, Covid-19, and other factors.

In particular, as the term of the BOJ governor [Haruhiko Kuroda] is coming to an end, we believe that the future direction of BOJ's monetary policy will have an impact on the market, which will require close monitoring. Even in this difficult environment, the core of

JFM's mission is to stably secure funds to support local government projects, and we intend to take the necessary measures, including careful dialogue with investors and the development of a new investor base.

In our roadshow meetings, we meet with about 200 bond investors per year. We are concerned that the number of coronavirus cases remains high in Japan, which limits our ability to conduct IR meetings in person. We will continue to use a hybrid approach, such as conducting face-to-face and web-based meetings, but we believe we must seek better IR methods as we focus on conversations with investors.

GlobalCapital: What are you most optimistic about for the year ahead, and heading into 2023?

Ando, JFM: Our bonds are purchased by many investors in the public sector. Especially in the current fiscal year, their investment needs have increased significantly, and we view this as a positive development. In addition, we hope that the volatile market environment will provide us with a good opportunity to deepen our communication with public sector investors with whom we have had a close relationship.

Shingo Kanatani
DBJ

Kanatani, DBJ: Due to the BOJ's monetary policy, the interest rate in Japan is basically controlled within a certain range, and Japanese investors' appetite for domestic bonds with high credit continues to remain generally strong. As such, we hope we will be able to steadily proceed with our domestic fundraising for the year ahead, and heading into 2023.

Ito, JBIC: From an issuer's perspective, market conditions were bad in May and got worse in June and July, but they have been getting better in August and September. So although I would not be super optimistic for the year ahead, to have a bit of a wishful thinking, conditions should not get worse compared to what we have seen earlier this year.

GlobalCapital: The Japanese government drew up a plan in May to issue an estimated ¥20tr ($138bn) of green transition bonds to achieve a carbon-neutral society by 2050. How are you expected to support that plan? What challenges are you and the government likely to face on this?

Kanatani, DBJ: The Japanese government has started in-depth studies of the structure of green transition bonds. The main discussion points include the use of proceeds of the green transition bonds and the way of raising funds for the redemption of green transition bonds. As of now, we are not sure how we could support the plan.

Ando, JFM: At this point, the detailed scheme for the plan has not been clarified, but we understand that the purpose of the plan is to support long-term investments by private sector for the transition to a decarbonized society.

Under such circumstances, local governments are expected to work in conjunction with the central government. We believe that the funds raised in the capital markets by JFM, a funding agency jointly established by local governments, will be used for decarbonization projects in local governments, thereby supporting the goal of the government plan.

While we believe that the government plan will greatly contribute to the expansion of the ESG market in Japan, we hope the effectiveness and specificity of the plan will be firmly established in order to contribute to its sound development.

Ito, JBIC: The Japanese government is keen to promote decarbonisation both domestically and globally, and the plan to issue green transition bonds is a part of their policy.

At JBIC, promoting ESG is one of our key focus areas too. We introduced the JBIC ESG policy in October 2021. In the policy, we are committed to reducing our operational emissions to net zero by 2030, and to achieve net zero emissions in our finance portfolio by 2050. As such, we provide loans to renewable power projects and other environmentally friendly projects around the globe to contribute to the implementation of the Paris Agreement.

To give one example, JBIC is engaged in supporting Asean countries like Vietnam to make their transition from coal fired power to cleaner sources like solar, wind or gas. This is in line with an initiative launched by the government of Japan to support energy transition in the Asean countries.

When it comes to market issues, we printed our first green bond earlier this year. The risk profile of the JBIC green bond is basically the same as that of the government's green transition bonds, as our bond is guaranteed by the government of Japan. However, of course, the currency is different, as our green bond is denominated in a non JPY currency.

While our green bond does not compete with the government's green transition bonds, I feel it will be essential to have close communication with investors so that we can explain the difference between the two products, and hopefully, investors would find both products to be attractive.

GlobalCapital: What have been some of the key developments in Japan's ESG market in the past six months? How is that set to impact the ESG debt market in the country?

Ando, JFM: From the perspective of local governments with which JFM has strong relationships, some local governments have accessed the ESG market for the first time, for example, a recent sustainability linked bond sold by the Shiga Prefecture. In addition, a number of local governments are planning to issue their first ESG bonds during this fiscal year. We expect the volume of ESG market issuance from the municipal sector to grow, and this increase will contribute to the development of the ESG market in Japan.

Kanatani, DBJ: The key development in Japan's ESG market in the past six months is a wave of transition bond issuances from a wide range of industries. The long-term transition strategies of issuers are consistent with the Japanese government's roadmaps of respective industries' greenhouse gas emission reduction scenario toward 2050.

This wave shows the increasing importance of transition finance in Japan. The volume of transition bonds and loans will probably increase in the domestic market going forward. GC

Smashing success: Japanese banks break ground in euros

Volatility and unpredictability ruling over much of capital markets this year have complicated global funding conditions. But Japan's largest banks have stood out with a bigger presence abroad, particularly in euros, reports **Atanas Dinov**.

JAPAN'S THREE major banks reached a milestone in their bond funding in 2022. By mid-September, their combined outstanding volume of euro bonds surpassed €25bn — an all-time high aimed at supporting their more profitable global businesses.

This growth in total outstanding euro bonds by Mitsubishi UFJ Financial Group, Mizuho Financial Group and Sumitomo Mitsui Financial Group, helped by new euro deals this year, are a big step forward for these institutions.

After growing their bond issuance abroad, the lion's share of which is in dollars, the euro has stood out with its consistent frequency of use.

"Japanese banks have developed more and more appreciation of the funding diversification the euro offers," says Matteo Benedetto, head of FIG syndicate for Europe, Middle East and Africa at Morgan Stanley.

"2022 is proving to be the year Japanese banks were confirmed as established issuers in the euro market"

Matteo Benedetto, Morgan Stanley

"They started issuing in euros in 2017, then more issuance happened in 2019 and following the period of volatility brought on by Covid-19, 2022 is proving to be the year Japanese banks were confirmed as established issuers in the euro market."

Notably, Mizuho and MUFG have augmented their presence in the currency, helping to ease some of the pressure on their core foreign funding in dollars.

The two raised a combined €5.85bn in the calendar year to September 12, when this piece was written, propelling the Japanese megabanks' volume of euro senior debt above that of leading Australian or Canadian banks' outstanding senior euro bonds, Dealogic data shows.

This is no small feat — with all the signs showing that the euro bond market will continue to be a main source of funding for Japan's three largest banks.

Deposits shortfalls, higher margins

There is an important rationale behind the megabanks' foreign bond issuance — to finance their operations overseas, largely for on-lending. That, in turn, is key for their profitability.

"All three megabanks are quite different from each other," says Pramod Shenoi, president of CreditSights Singapore and co-head of Asia Pacific research. "But there are common factors among them, such as the ultra-low interest rates in Japan creating the need to expand overseas."

After more than two decades of low interest rates, the megabanks' overseas businesses have generated "higher returns on assets and equities compared to their Japanese businesses," says Kaori Nishizawa, responsible for financial institutions at Fitch Ratings Japan.

With the firms' main deposit base in yen, however, their loan-to-deposit ratio has been at more than 100% in foreign currencies. This implies a reliance on capital markets to make up for the shortage of foreign deposits.

"The funding cost in yen is no doubt much cheaper for the Japanese megabanks," adds Nishizawa. "But they need to fund in foreign currencies because that's where they have limited deposits."

The trio finished fiscal year 2021, ended March 2022, with foreign currency loan-to-deposit ratios ranging from 122% to 154%, calculated Fitch Ratings, based on the banks' results. Once their medium to long term funding in foreign currencies are accounted for — ranging from bonds and other borrowings to currency swaps — the ratios improved significantly. The average was at 93%, the lowest at 84% and the highest at 99% during the period, said Fitch.

When looking at consolidated loans-to-deposits, combining yen and foreign currencies, Fitch calculated that this ratio spiked to between 52% and 63% by the end of March.

Diversification drive

Historically, MUFG, Mizuho and SMFG have focused their foreign currency funding on dollars. Analysts have attributed this to their global operations mostly involving dollar lending. In 2021, for instance, they issued $22bn in global dollar benchmark bonds, having printed almost $23.6bn in 2020, according to Dealogic data.

With about three months left in 2022, they had raised about $18.8bn, as of September 12. MUFG powered the bulk of this through multiples deals, accounting for more than 70% of the supply. Mizuho followed with a share of just under 20% thanks to two trades, with SMFG having issued $2bn.

Regardless of the smaller dollar volume so far this year, bankers agree that the firms have a strong global following from a large number of investors. These buyers span not only the US; Japanese banks' dollar deals are said to often attract strong pan-Asian and domestic bid, say bankers.

The megabanks "are part of the investment grade index that asset managers [in the US] are benchmarked against; everyone has to follow them," says a debt syndicate manager based in the US. However, a heavier reliance on the dollar market in 2022 appeared to have created a sense of oversupply in September, he adds.

The US syndicate banker says there was a pick-up in bond flow from Asia Pacific bank holding companies across the board — comprising Japanese as well as Australian financial institutions — which was up more than 12% year-on-year as of the first week of September.

Naturally, this concentrated Asian FIG issuance in the US, amid volatile market conditions, pushed up the relevance of the euro.

There is more risk in foreign currency funding, however, compared to the yen market, due to the banks' dependence on the capital markets, says Nishizawa. "In case of a liquidity crunch, this could probably mean banks will have a higher reliance on yen deposits to convert them to dollars," she says.

"Japanese banks have had good discipline in the past few years in terms of their foreign currency lending, resulting in a steady increase in margins"

Pramod Shenoi, CreditSights Singapore

If such harsh conditions ensue, swapping yen to dollar will likely become "very expensive," she says. As a result, for their stable operations, the megabanks need regular and reliable access to foreign bond markets.

There is certainly merit for the Japanese banks to spread out their foreign currency funding to euros. "The selling point internally is the diversification, alleviating the pressure on their dollar funding," says Benedetto.

A London-based head of FIG DCM adds: "There is a huge domestic bond market in Japan, but diversification is always good. While local investors could be buyers of the megabanks' dollar bonds, it's less likely to have Japanese investors buying euros. There is a different technical for the euro."

Japanese banks are increasingly moving into the euro market for funding diversification

Benedetto also points to MUFG and Mizuho each issuing at least one euro deal this year, after both also visited the euro market at least once in 2021, referring to this funding as "a frequent approach, a statement".

Rise of the euro

For the full calendar year 2020 and 2021, MUFG printed one euro deal worth €500m each year. This meant the euro took a share of about 7.5% and 6.5% of its non-Formosa dollar issuance for the two respective years, according to Dealogic data.

But by mid-September this year, MUFG's equivalent euro share grew to more than 23% —even as the euro hovered around parity with the dollar — as both its euro and dollar benchmark issuance volume shot up to €3.05bn and $13.2bn.

The bank focused its 2022 euro issuance at the short end, with €2.3bn stemming from three year non-call two holding company debt and the remainder from a €750m 10 year tranche.

Meanwhile, Mizuho grew its euro share the most during this period. In 2020, the currency was equivalent to almost 40% of its dollar issuance; this jumped to nearly 60% in 2021 and in 2022 ballooned to 78%. Unlike its rival, Mizuho was constant, with both its 2022 euro forays encompassing five and 10 year tranches. Moreover, its most recent August outing included an €800m five year green bond — the only green euro trade from the megabanks so far this year.

SMFG has been the exception among the three lenders, having issued no euro deals in 2022 or 2021. In 2020, its euro funding of €1.5bn — combined across operating and holding company levels — amounted to a little over 20% of its $8.5bn non-Formosa dollar volume, Dealogic data shows.

Part of the megabanks' euro transformation has been attributed to their relatively high credit quality — something that appeals to European investors.

"The investor community in Europe will open new lines for relatively frequent issuers with liquid curves. Japanese banks fit into this category," says Benedetto.

Moody's/S&P Global Ratings/Fitch have assigned credit ratings of A1/A-/A- for MUFG and Mizuho at the holding company level and A1/A-/A for SMFG.

"Another positive aspect of their funding in euros, is that Japanese banks have been historically high quality issuers and highly rated banks, able to issue across the curve — the definition of low beta," adds Benedetto. "That's good because in volatile markets, like right now [in 2022], they can still access the euro primary market."

This support from European investors may turn out to be critical as the megabanks face headwinds from the worsening macroeconomic climate.

"Funding in yen is much cheaper for the Japanese megabanks. But they need to fund in foreign currencies because that's where they have limited deposits"

Kaori Nishizawa, Fitch Ratings Japan

Turbulence ahead

There are challenges ahead, once again directly and indirectly tied to the megabanks' links to the dollar.

First, the sharp depreciation of the yen has pushed up the banks' risk weighted assets. This resulted in 50bp-70bp of decline in their common equity tier one ratios in the quarter ending June 2022, according to Shenoi.

The yen had lost more than 25% of its value versus the dollar by mid-September, due to the divergent monetary policies of the US and Japan. With interest rates sharply higher across nearly all the developed world, megabanks have a tough time ahead.

CreditSights' Shenoi refers to this combined aspect as the mark-to-market hits on the megabanks' dollar bond investments amid rising interest rates.

Immediately, the higher rates may not be a significant burden, according to Fitch's Nishizawa. She expects the megabanks will be able to pass the rising cost of funding in foreign currencies on to their loan pricing, adding that their assets and liabilities are largely matched.

However, "in the mid to longer term, the higher interest rate would test the borrowers' debt service capability," adds Nishizawa, "[and could thus] pressure their asset quality".

Shenoi offers a sense of a silver lining, saying: "Japanese banks have had good discipline in the past few years in terms of their foreign currency lending, resulting in a steady increase in margins." While Mizuho's foreign currency margins decreased over the quarter ended in June 2022, they continued to go up for MUFG and SMFG, he says.

"Discipline is good because that means higher return on equity," says CreditSights' Shenoi. "And that's good for capital, which in turn is better for bondholders." GC

MUFG finds stability in euros

MUFG's funding desk, like many others globally, did not have an easy time navigating volatile funding conditions this year. Officials had to balance a low interest rate environment in Japan, but significantly higher interest rates in the US and Europe, to determine the best funding mix for the year.

The euro bond market proved popular in this "very unpredictable" environment, says a funding official at MUFG in Tokyo.

As a result of this volatility, MUFG used all available windows to pre-fund as much as possible: it issued in January, a first for MUFG to print abroad during this time of the year, and then hit the market again in April, returning to fund during that month for the first time in six years.

"For both dollars and euros, high market volatility caused problems for us in picking the right time to issue," says the funding official. On several occasions this fiscal year, MUFG was forced to push back a deal due to market turbulence.

Amid this heightened volatility, however, the euro stood out.

MUFG raised €3.05bn between January and September, the highest amount it has ever raised in this currency in a calendar year.

"The reason why we are using euro this year more than usual is because we believe that tapping into a broader range of investors through funding in non-dollar currencies is crucial to maintaining market access, especially in these difficult market conditions," says the funding official.

Thanks to its funding expansion, MUFG grew its share of total loss-absorbing capacity debt away from dollar funding.

From past averages where the dollar formed around 90% of its TLAC funding, this year the currency mix changed to 73% in dollars, 21% in euros and 6% in yen. Its home currency TLAC-eligible funding only started in the 2021 fiscal year.

The euro market, offering important diversification, has now become a key source for MUFG's TLAC funding programme, stressed the funding official.

Pros and cons

In general, MUFG does not extensively focus on comparing its foreign funding cost on a relative value basis, as it looks at specific market conditions instead.

But it recognised that funding in euros was more expensive than dollars, as of September, when it issued in both currencies within a close interval.

"We do focus more on relative value when we are planning to fund in both euros and dollars in a relatively close period of time, as we did [in September], but it is not the highest priority for us [to compare funding on relative value basis]," said the official.

Still, over 70% of MUFG's TLAC funding is in dollars, despite the "significant" spread widening in 2022.

The funding official pointed to two similar trades issued in July 2021 and in September 2022. In the July outing, MUFG paid 75bp over US Treasury for a $2.1bn 1.538% six year non-call five note and 95bp for a $1.8bn 1.625% 11 year non-call 10 tranche.

In September, the bank had to fork out 190bp and 212.5bp to fund in the same tenors, in a $1.25bn 5.354% tranche and a $750m 5.472% portion, respectively.

Despite the visible spread widening, MUFG did not experience any difference in what it has been able to raise through the debt capital markets, said the official.

But could this price differential mean a better funding opportunity locally? Not necessarily, says the official, as MUFG generally does not swap yen raised for TLAC funding purposes into foreign currencies.

However, there is a possibility yen may be swapped into dollars on the back of asset and liability management operations.

"We are still considering pushing currency diversification, although yen remains an option at any time," adds the official. GC

Japan moves towards transition bonds

Transitions bonds are in the spotlight in Japan thanks to policy support, but the country will need to tackle concerns around greenwashing if it wants a real shot at meeting its net zero goals, reports **Nancy Qu**.

JAPAN'S AUTHORITIES have increasingly made transition finance and mitigating the impact of climate change among their top priorities.

One case in point: in October 2020, Japan's former prime minister Yoshihide Suga said the nation would aim to become carbon neutral by 2050. The country has also committed to a 46% reduction in greenhouse gas emissions by 2030.

It has since followed up with some big moves. In May 2021, Japan's Financial Services Agency, the Ministry of Environment, and the Ministry of Economy, Trade and Industry unveiled guidelines for climate transition finance. Soon after, Japan put together a framework for transition bonds.

The authorities took things a step further in May this year, drawing up a plan to issue an estimated ¥20tr ($140bn) of green transition bonds to accelerate the push to a carbon-neutral society.

Equally importantly, Japan's corporations and banks have rapidly embraced transition bonds, too.

In July 2021, shipping company NYK issued Japan's first domestic transition bonds, raising ¥20bn to support offshore wind vessels and other similar initiatives.

In January this year, steelmaker JFE became the first Japanese manufacturer to issue transition bonds to reduce greenhouse gas emissions. In March, Japan Airlines became the world's first airline to take the transition route, selling a ¥10bn deal, reviewed by Sustainalytics, to upgrade to fuel-efficient aircraft.

Transition bonds are not considered traditional green notes as they allow companies that do not meet the usual green standards to raise money to transition their infrastructure and practices to comply with the Paris Agreement.

Since the International Capital Market Association published its transition finance handbook in December 2020, there have been approximately $6bn of transition bonds sold globally.

The issuers have spanned the markets of Japan, Italy, Mainland China and Hong Kong, but Japanese issuers account for about 40% of the total volume, says Yasunobu Katsuki, sustainable development goals primary analyst at Mizuho Securities.

"Issuers must be prepared to be scrutinised and challenged on their stated use of proceeds, particularly when there are hostile holders of bonds"

Chihiro Ashizawa, Clifford Chance

Chihiro Ashizawa, counsel and head of capital markets for Japanese law at Clifford Chance, tells *GlobalCapital:* "Transition bonds are becoming popular, especially for energy companies, as Japan is still heavily reliant on coal-fired electricity generation, and for airlines that suffered a huge loss from Covid 19."

In the 2021 to 2022 financial year to date, Japan accounted for 11% of the global transition bond market, and 5% of the global ESG market. In this period, a third of all transition bond issuers were Japanese, says Antoine Rose, head of sustainable banking for Asia Pacific and the Middle East at Crédit Agricole CIB.

"Most of the transition bonds have been issued for the domestic market, and 71% of Japanese ESG bonds [have been] issued in Japanese yen," says Rose. "We are seeing this trend continue in the second half of 2022 and in 2023 given the development of the local energy transition strategy, in parallel to the implementation of green taxonomy in other geographies, particularly in Europe."

He adds that borrowers could offer specific labelling depending on the investor base they are targeting. This could be green or sustainability tags for the global investor base, and transition for domestic investors.

But while the boom in transition financing from Japan is promising, there are roadblocks on the way to achieving its lofty carbon targets, say market participants.

The first challenge, says Reiko Hayashi, deputy president of Bank of America Securities Japan, is that "high emitters need to implement new technologies to achieve transition".

For example, airline companies are trying to develop sustainable aviation fuel, and electric power companies need technology to support their sustainable power generation, she says.

In addition, investors need to understand if transition policies are transparent enough.

"So we need technology innovation going forward and a clear roadmap to realise the Japanese government's carbon neutral zero target," she says.

Hayashi says market participants are positive about the new policy, given awareness that government support is needed across the board to achieve carbon zero goals.

"To promote ESG further, transparency and credible explanation by the government and companies are needed," she says. "A stable administration is very helpful to introduce ESG schemes to the market. Issuers

Prime minister Fumio Kishida (L) and finance minister Shunichi Suzuki (R) are driving Japan's ESG charge. They are joined by minister for economic security Sanae Takaichi (C) in this photo

should also be aligned with international market practices."

Greenwashing concerns

It's not going to be easy going, however. The Japanese bond market continues to face a volatile environment due to concerns about rising interest rates. The yen has been under incredible pressure this year due to a divergence in monetary policy between the Bank of Japan, led by governor Haruhiko Kuroda, and the US Federal Reserve, chaired by Jerome Powell.

But when it comes to labelled bonds, issuance continues at about 1.8 times the pace of the previous fiscal year, which runs from April to March in Japan, according to Mizuho's Katsuki.

"Another highlight of the current fiscal year is that about 40% of the total amount of corporate bond issuance is labelled bonds. Last fiscal year, the ratio was 13% for the full year," he says.

Kudos must go to the different arms of the Japanese regulators for making a concerted push to grow the nation's ESG market.

For instance, the FSA — led by finance minister Shunichi Suzuki as minister of state for financial services — updated the disclosures around its corporate governance code last year. Companies listed on the prime market of the Tokyo Stock Exchange (these firms are more globally aligned) are supposed to disclose financial data based on the Task Force on Climate-related Financial Disclosures and international standards.

The government, under the leadership of prime minister Fumio Kishida, has issued industry roadmaps that investors can monitor or check if companies are aligned with the net zero initiative. The Japan cabinet office also recently started a panel to promote and accelerate green transformation.

"A highlight of the current fiscal year is that about 40% of the total amount of corporate bond issuance is labelled bonds. Last year, the ratio was 13%"

Yasunobu Katsuki, Mizuho Securities

Companies too are committing to ESG disclosures.

"The Ministry of Economy, Trade and Industry and the FSA have been providing examples of non-financial information so that Japanese companies can disclose more valuable ESG information," Clifford Chance's Ashizawa says.

But these efforts may struggle to make a big impact until Japan — as well as other global regulators — makes a bid to reign in concerns around greenwashing.

This is critical, given the global focus on tackling greenwashing amid worries that borrowers are using the money raised from investors or banks for purposes that aren't necessarily ESG aligned.

This use of proceeds could be a challenge as it is difficult to prove the money is being used for ESG purposes.

"Globally, a common ESG concern is the proper disclosure of use of proceeds," says Ashizawa. "As money is fungible, it is challenging to verify and quantify that proceeds are really used for ESG purposes. Issuers must be prepared to be scrutinised and challenged on their stated use of proceeds, particularly when there are hostile holders of bonds, as we've seen in a recent case involving a Japanese issuer in the US."

Last year, the Japan International Cooperation Agency came under fire for allegedly using a dollar bond to fund a coal-powered project, despite having said it will not do so in the deal prospectus. A group of non-governmental agencies are understood to have filed a complaint with the US Securities and Exchange Commission about this matter.

Top bodies in Japan are working on bringing in change and more transparency. Earlier this year, the BOJ and the FSA released the results of a pilot exercise on banks' resilience to climate change risks. They said Japanese banks will be able to insulate themselves against losses resulting from climate change.

The Japanese Ministry of Economy, Trade and Industry meanwhile recently wrapped up a consultation on human rights due diligence guidelines. This means companies would be required to put together a reasonable human rights policy and conduct relevant due diligence to support it.

The strides are impressive and could herald a turnaround for Japan's broader ESG market in the long run. But for the time being at least, green bonds continue to be centre stage.

Green bond crown

For corporate deals, green bonds dominate the Japanese ESG market as they are clearer to understand from a use of proceeds point of view.

Green bonds have to be clearly earmarked for green assets or projects, and issuers have to make thorough disclosures around how the money is used.

Green bonds have a longer history than transition bonds, too, meaning they are more familiar to investors and easier to buy.

"Higher emitter companies such as those in the oil or gas sectors have started to issue transition bonds very proactively"

Yusuke Sutani, Bank of America Securities Japan

In addition, social bonds are still largely limited to the public sector in Japan. Throw in the fact that some Japanese investors cannot participate in sustainability-linked bonds, green bonds continue to be a favourite with borrowers.

"Green bonds issued by local governments are the most popular ESG bonds in Japan, and some of them are also sold to retail investors," says Ashizawa. "This product has gained traction not just in major cities, like Tokyo or Osaka, but also in smaller cities and towns."

Ashizawa adds: "In addition, there are some reports that issuers may be able to enjoy green premium pricing. In general, the nature of green bonds provides for greater data transparency and accuracy of reporting as compared to other ESG bond products."

There have been developments in other ESG products too. There have been some sustainability-linked bonds sold in yen in Japan, but the market is still small.

SLBs are deals tied to performance indicators and targets set by the borrower. They offer issuers some flexibility as the proceeds are not ring-fenced to green or sustainable purposes and can be used for general needs. Rather, borrowers are committing to explicitly improve their businesses and make them sustainable in the future.

"For SLBs, issuers need to establish credible [key performance indicators] and sustainable performance targets that should be material to their business," says Yusuke Sutani, director of ESG capital markets at Bank of America Securities Japan. "It takes some time for Japanese issuers to set up a sustainability-linked bond framework and KPIs and get ready to issue sustainability reports for SLBs."

The SLB growth in the country is also hobbled by the fact that some investors cannot purchase SLBs with a coupon step-up structure.

In global markets, the majority of SLBs have a coupon step up structure, where the pricing changes if the borrower meets its KPIs, but Japan's market is a bit different.

Sutani says that for most domestic SLBs, if the firm cannot meet its sustainable performance target, it will make a donation to non-profit environment organisations or purchase carbon credit, rather than offer a higher coupon to investors. "So some domestic investors are not used to investing in coupon step up products," he adds.

Crédit Agricole's Rose says SLBs are innovative products relying on the medium- or long-term sustainability strategy of the issuers rather than their current capital expenditure or investment plan. Investors value the ambition of those strategies.

"The next challenge for Japan SLB issuers is to target the international investor base and issue euro or dollar-denominated benchmark SLBs," he says.

Bankers say the social bond market also has potential. State-owned agencies are the biggest social bond issuers in Japan and globally, but a handful of universities and corporations have joined the fray recently. Airlines have printed social bonds, as have firms like Fujifilm Holdings Corp, which raised ¥120bn in April to grow its biopharmaceutical contract development business, which will plug some unmet medical needs in the country and the world.

The FSA published social bond guidelines in October last year, which were intended to promote the wider adoption of social bonds.

Whether more corporations will bite, however, is up for debate.

"Although the FSA aims to encourage the private sector to issue social bonds, the structure of the market will remain centered on FILP agencies," says Mizuho's Katsuki. FILP refers to the Fiscal Investment and Loan Program, a policy-based public finance system backed by the government.

For instance, the Japan Student Services Organization (Jasso) has been selling social bonds since fiscal year 2018, with an annual issuance of ¥120bn.

Its focus on social bonds has been to expand its investor base and achieve stable funding over the medium to long-term, and further contribute to the sustainable development goals, says Zensuke Kitajima, deputy director in the fund management division of Jasso's finance department.

These developments all show that Japan and Japan Inc are heading in the right direction around ESG.

Trendy

Thanks to the global ESG market being in a big phase of development and support from Japan's regulatory bodies, new trends and innovative products are taking shape in the country.

"High emitter companies such as those in the oil or gas sectors have started to issue transition bonds very proactively in the domestic market, which is influenced by the Japanese government's new policy and related subsidy support," Sutani says.

Oil major Eneos issued transition-linked bonds in June, raising ¥100bn from a two-tranche deal. A first for Japan, the deal was a mix of a transition bond and SLB and in line with the firm's ambition to become a carbon neutral business.

Additionally, Shiga Prefecture became the second local government in the world to issue an SLB this year.

Global sovereigns are also dipping their toes into Japan ESG. In August, Mexico issued a ¥75.6bn Samurai bond linked to the Sustainable Development Goals, a first for a sovereign in this format.

It's unlikely to be the last, though.

"There will be more issuances like that moving forward," Ashizawa says. "Foreign governments and companies want to get fundraising in Japan as the Japanese interest rates are lower compared to other markets, such as the US and Europe." GC