JAPAN REGIONAL OVERVIEW

Despite global economic headwinds, Japan's sustainable investment market demonstrated resilience and maturity between 2022 and 2024.

Market Drivers

In 2024, Japan's total sustainable investment assets under management (AUM) reached approximately ¥626 trillion, accounting for 63.5% of total AUM—a 16.4% increase from the previous year. This growth was driven by rising market valuations, yen depreciation, and broader adoption of ESG strategies among institutional investors.

ESG integration remains the dominant approach, followed by corporate engagement and shareholder action. ESG index-linked investment with selection-based indices was up 32.3% and ESG index-linked investment with tilted indices increased 28.9%.

Market volatility, along with heightened scrutiny around greenwashing, led to more cautious fund launches and rebranding efforts. Providers began refining fund naming and disclosures to align with emerging regulatory expectations and international standards.

Policy & Regulatory Drivers

Japan's regulatory momentum accelerated between 2022 and 2024, with the FSA and Ministry of Economy, Trade and Industry (METI) leading the charge.

In March 2023, the Financial Services Agency (FSA) amended its supervisory guidelines to address concerns over greenwashing in ESG investment trusts, stabilizing a market that had more than doubled between 2019 and 2023. At the tax policy level, the expansion of NISA (Nippon Individual Savings Account) exemptions in January 2024 opened new opportunities for retail investors, though only a small fraction of sustainable products qualified.

In 2024, the FSA released Basic Guidelines on Impact Investment, and the Sustainability Standards Board of Japan (SSBJ) published draft disclosure standards aligned with ISSB in March 2024, laying the groundwork for a future mandatory regime. These efforts aimed to improve ESG transparency, standardize disclosures, and support the development of carbon credit markets.

Japan also became the world's first sovereign issuer of climate transition bonds in 2024, signalling its commitment to financing the decarbonization in hard-to-abate sectors such as steel, chemicals, and aviation. As of 2024, the green, social, and sustainability bonds & loans market reached ¥5 trillion, which, although small compared to the global market, showed a comparatively strong growth. The GX (Global Transformation) Promotion Strategy and revised Sector-Specific Investment Strategies outlined long-term investment plans across 22 sectors, including hydrogen, semiconductors, and sustainable aviation fuel, which are designed to mobilize private capital and align corporate behavior with national climate goals.

These developments reflect Japan's ambition to integrate sustainability into its financial system and corporate governance practices.

Industry Collaboration

Japan's financial sector and industry have embraced collaborative initiatives alongside regulatory reforms on sustainable business and finance practices.

Japan convened the Asia GX Consortium in 2024, fostering common standards for transition finance and disclosure across ASEAN. This reflected Tokyo's ambition to position itself as a regional convener and to harmonize standards while supporting the overseas expansion of its financial institutions. The Impact Consortium has also gained traction, promoting impact startups and impact finance.

Japanese financial institutions have also demonstrated strong support for global disclosure frameworks such as the Taskforce on Nature-related Financial Disclosures (TNFD) and the emerging Taskforce on Inequality and Social-related Financial Disclosures (TISFD). As of January 2024, Japan led the world in TNFD early adopters, with 80 organizations (which include major asset management firms, banks and insurers)—accounting for one-quarter of the global total of 320, and has also established a TNFD Consultation Group Japan, which further deepens understanding and practice, including sharing the investor's view to investee companies.

While we did not observe a significant change in the overall participation status in major initiatives, there was an increase in signatory institutions to the Japan Impact-driven Financing Initiative and the Taskforce on Nature-related Financial Disclosures (TNFD).

Customer Drivers

Institutional investors remain the backbone of Japan's sustainable investment market, with ESG integration embedded in mainstream processes, with an increasing appetite to seek impact through investments. Risk management and long-term value creation are key motivators, especially amid growing climate-related financial risks. Retail investor interest is rising, particularly among younger demographics, supported by the launch of Japan's expanded NISA program in 2024.

Despite growing interest, challenges persist. Whilst there is hope that the recent NISA investment growth may lead to further uptake of sustainable investment by retail investors, the limited number of sustainable investment funds eligible within the NISA program pose a challenge. Many investors both institutional and retail still lack clarity on ESG definitions and metrics.

There is a need to bridge this gap through better education, transparent labelling, and reliable data, where advisors and intermediaries are also expected to enhance their knowledge and role. Concerns about greenwashing remain a barrier to growth, reinforcing the need for accountability and standardized disclosures.

About Us

The Japan Sustainable Investment Forum (JSIF) was formed in 2003 as Japan's not-for-profit organization promoting the concept and practices of sustainable and responsible investment in the country. JSIF provides a forum for the interactive exchange of ideas and research for financial institutions, academics, government organization and other interested parties in the field of sustainable investment. JSIF also encourages companies to provide disclosures of non-financial information to build a sustainable society through the sound development of the financial market.

CAPABILITIES	JSIF
Member Communications	Yes
Member Events	Yes
Policy Influencing	Yes
Research	Yes
Education	Yes
Accreditation	No