PRI PRINCIPLES FOR RESPONSIBLE INVESTMENT

TRANSITION FINANCE IN JAPAN: TURNING POLICY MOMENTUM INTO INVESTMENT MOMENTUM

Policy briefing

June 2026

An investor initiative in partnership with
UNEP Finance Initiative and UN Global Compact

UN environment programme finance initiative | United Nations Global Compact

About the PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of sustainability and governance-related issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating sustainability and governance-related issues into investment practice. The principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. For more information, visit www.unpri.org.

About this briefing

This briefing provides an overview of Japan's transition finance policy landscape and recent GX-related developments, alongside current investor perspectives. It is primarily for domestic and international investors seeking to understand Japan's current transition finance landscape. It should also be useful for policymakers, assessing how the framework is working in practice, where barriers to capital mobilisation remain, and what next-step policy refinements could help unlock investment.

For more information, contact:

Kazuma Osaki
Head of APAC Policy
kazuma.osaki@unpri.org

Aina Urano Menneken
Policy Specialist
aina.menneken@unpri.org

Executive Summary

Japan has built a largely comprehensive transition finance framework under GX (Green Transformation). A central finding of this briefing is that the next phase of Japan's transition finance challenge is not primarily about refining definitions or frameworks — it is about translating that architecture into investable pipelines, credible incentives and investor-relevant signals. Moreover, the nature of that challenge differs across investor types: pensions, insurers and investment managers face distinct constraints and require differentiated policy responses.

In today's geopolitical context, where energy supply chains have been increasingly exposed to disruption, these challenges have taken on greater urgency due to the heightened importance of energy security. Recent measures have expanded opportunities for investors, including through the government's climate transition bond framework. Momentum has been steady, supported in part by GX being positioned as a key economic and industrial strategy, not only a climate policy.

Interviewed investors generally viewed Japan's policy direction as comparatively clear, though views differed by investor type. Policy consistency appears to be helping sustain investor engagement, but investor use of transition finance still varies significantly across investor types and strategies.

Japan has been an important first-mover market for transition bond issuance. Frameworks informing entity-level transition are also increasing, but transition finance is not yet a core component of most institutional investors' strategies. Its use varies across investment managers, life insurers and pensions, with many investors placing greater weight on the credibility of company-level transition plans than on labelled instruments alone. While transition finance presents significant opportunities in Japan and across Asia-Pacific, important questions remain about how to crowd in private capital at scale to meet Japan's GX and Net Zero objectives.

The binding constraint is not definitions and methodologies, but investable pipelines, incentives, and risk mitigation. Against the backdrop of rising energy security concerns, this creates a window for the next phase of GX-related policy discussions to focus on unlocking capital at scale.

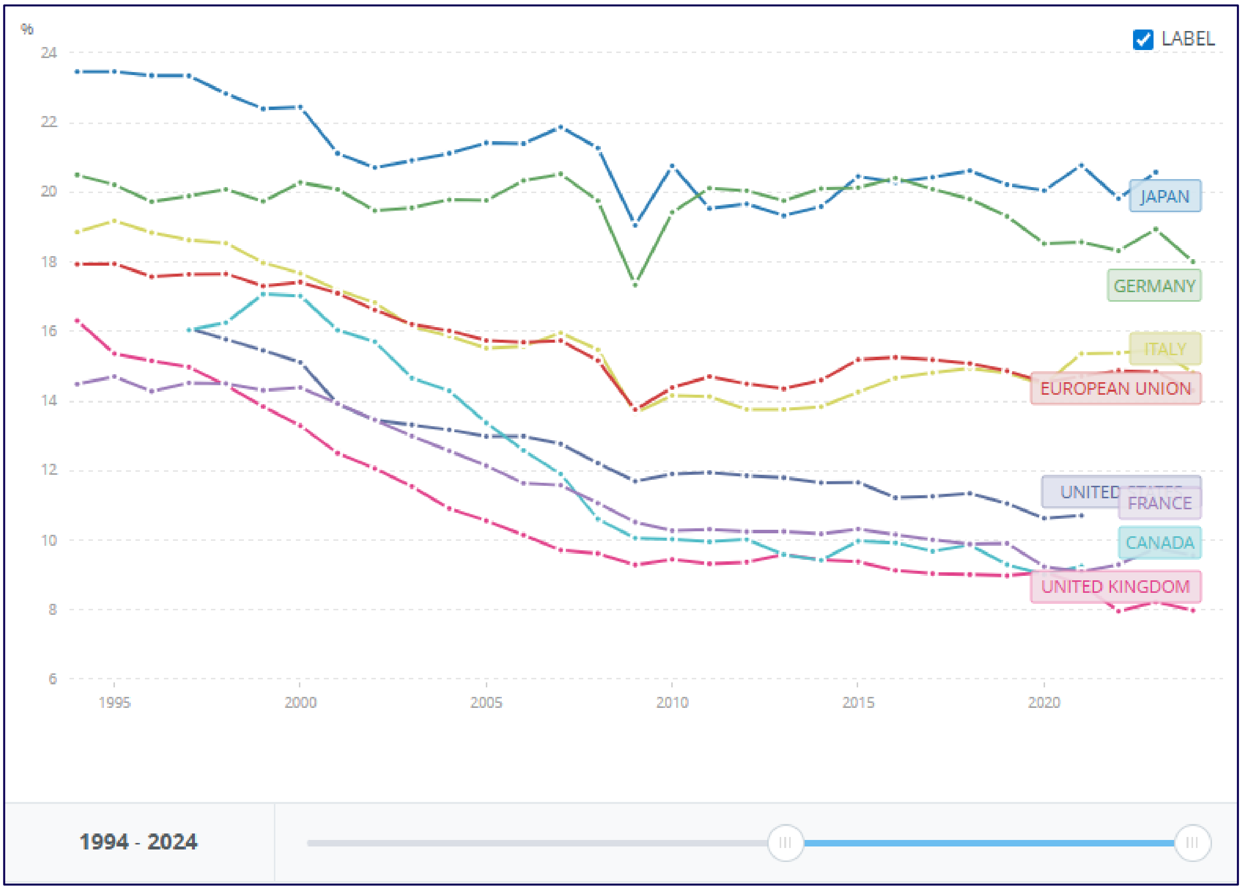
Definition and scope of transition finance

The Japanese government considers transition finance as a '**a financing means to promote long-term, strategic GHG emissions reduction initiatives that are taken by a company considering tackling climate change for the achievement of a decarbonized society'** (METI, 2026). This briefing uses this definition when referring to transition finance but recognises that investors and other stakeholders vary in their use of the term, depending on contextual circumstances, applicability at the economy-wide, activity, and technology-levels, and in stringency of aligning with decarbonisation pathways.

Why transition finance matters in Japan

Japan's economic structure: hard-to-abate sectors and the challenge of energy security

Figure 1: Manufacturing (% of GDP) in G7 Countries 1994-2024



Source: World Bank Data (accessed March 2026)

Japan's transition challenge is shaped by the structure of its economy, which includes a high concentration of emissions intensive, hard to abate industrial sectors. As seen in Figure 1, Japan has the highest proportion of its GDP coming from manufacturing among the G7 countries. These sectors are central to national competitiveness and employment, meaning that decarbonisation requires significant capital investment and careful management of impacts on workers, communities and supply chains. Energy security also strengthens the case for a well-managed transition, as Japan seeks to move away from overdependence on imported fossil fuels while maintaining stable supply and economic efficiency. Against today's geopolitical backdrop, disruptions to energy supply chains caused by war further highlight the importance of energy security and reinforce the urgency of clear transition-related policy signals.

GX as an explicit economic transition agenda, not just climate policy

Japan's Green Transformation (GX) agenda is designed as an explicit economic transition strategy rather than a narrow climate policy. It aims to transform Japan's growth model by linking decarbonisation to industrial renewal, energy system reform and long-term competitiveness. This whole-of-government framing reflects the understanding that climate, economic and social objectives must be pursued together if Japan is to navigate structural risks and capture emerging opportunities.

Japan's role in pioneering the concept and in regional transition finance discussions in Asia

Japan has been an early mover on transition finance internationally[1], including issuing the world's first sovereign Climate Transition Bond[2]. Its work on sectoral pathways and transition planning has informed broader international discussions, and its experience may offer useful reference points for regional discussions in Asia where economies face similar industrial transition challenges.

Many Asian economies share comparable industrial profiles and transition needs, and the region also includes rapidly growing emerging economies where decarbonisation is especially critical. This makes Japan's approach relevant to regional transition finance discussions, particularly in ASEAN-linked processes. By showing how transition planning can be integrated into economic policy, governance structures and financial frameworks, Japan's experience can contribute to the development of more credible and scalable transition pathways across the region.[3][4]

Transition finance is central to Japan's decarbonisation strategy, but its effectiveness depends on strengthening credibility while mobilising capital at scale. Continued dialogue among policymakers, investors and stakeholders remains essential to ensure the transition is both investable and aligned with economic and societal needs.

Recent developments in Japan's transition finance policy landscape

A key question running through the developments below is the extent to which Japan's framework is moving beyond labelled finance – transition bonds and loans – toward a more transformational model that drives entity-level transition planning and shapes investor behaviour. To date, the framework appears more developed for labelled instruments than for broader entity-level transition planning and capital deployment. As investors increasingly assess transition at the company level, an area for further development is how credibility expectations can be applied more explicitly beyond labelled instruments.

Strengthened credibility and integrity signals

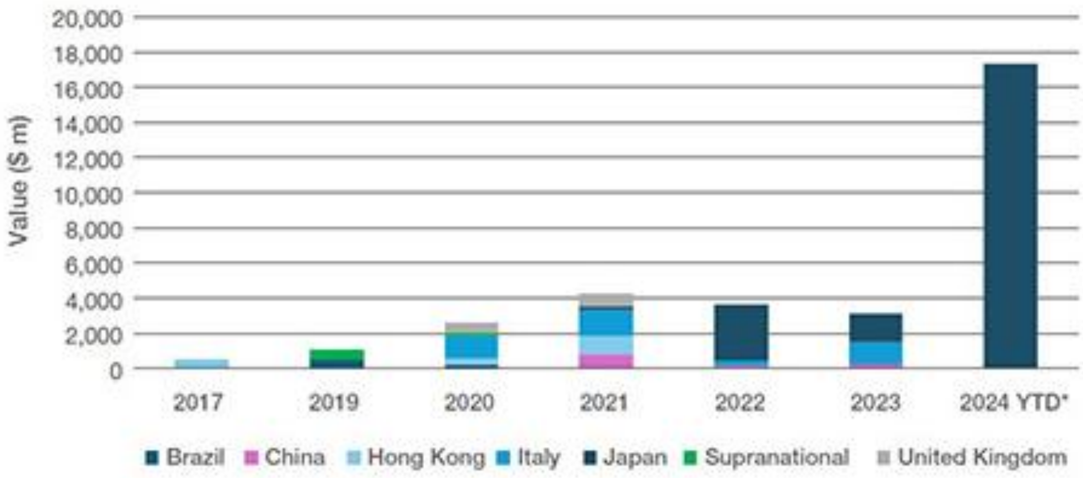
Japan has taken notable steps to strengthen the credibility of its transition finance frameworks, though continued progress remains important. In March 2025, METI, FSA and MOE revised the Basic Guidelines on Climate Transition Finance to align more with International Capital Market Association (ICMA)'s updates to the Climate Transition Finance Handbook[5] and reinforce expectations around governance, disclosure and implementation. The Climate Transition Bond Guidelines were published in November 2025[6], and clarify expectations on strategy and governance, materiality, science-based targets and implementation transparency. Second-party assessment confirming alignment between Japan's Climate Transition Bond Framework and these Guidelines was published in January and March 2026[7].

While Japan's early prominence in transition finance bond issuance (see Figure 2) helped catalyse market attention, following the initial surge issuance growth has slowed, suggesting that progress on credibility is not the sole driver of market dynamics.

---

[1] Climate Bonds Initiative, 2025 A turning point for Japan's Green Transformation
[2] METI, 2026 Japan Climate Transition Bond
[3] Asia GX Consortium, 2024. Working Paper Regarding Practical Approach to Transition Finance in Asia
[4] Association of Southeast Asian Nations, 2025. Joint Statement of the 12th ASEAN Finance Ministers' and Central Bank Governors' Meeting (AFMGM)
[5] International Capital Markets Association (ICMA) (2025) Climate Transition Finance Handbook
[6] ICMA (2025) Climate Transition Bond Guidelines
[7] METI (2026) Japan Climate Transition Bond

Figure 2: Annual transition bond issuance by country



Source: Environmental Finance (accessed March 2026)

Nevertheless, global stakeholders have responded positively to several elements of Japan's approach. Updated sector-specific roadmaps for high-emitting industries such as steel and aviation now provide investors with clearer expectations for Paris-aligned pathways and reduce ambiguity around what constitutes a credible transition.

For institutional investors, these developments represent progress toward reducing transition-washing risks. However, investors with global portfolios and clients still signal caution, noting that alignment with international norms must continue to deepen to ensure Japan's transition finance instruments remain interoperable and trusted across markets.

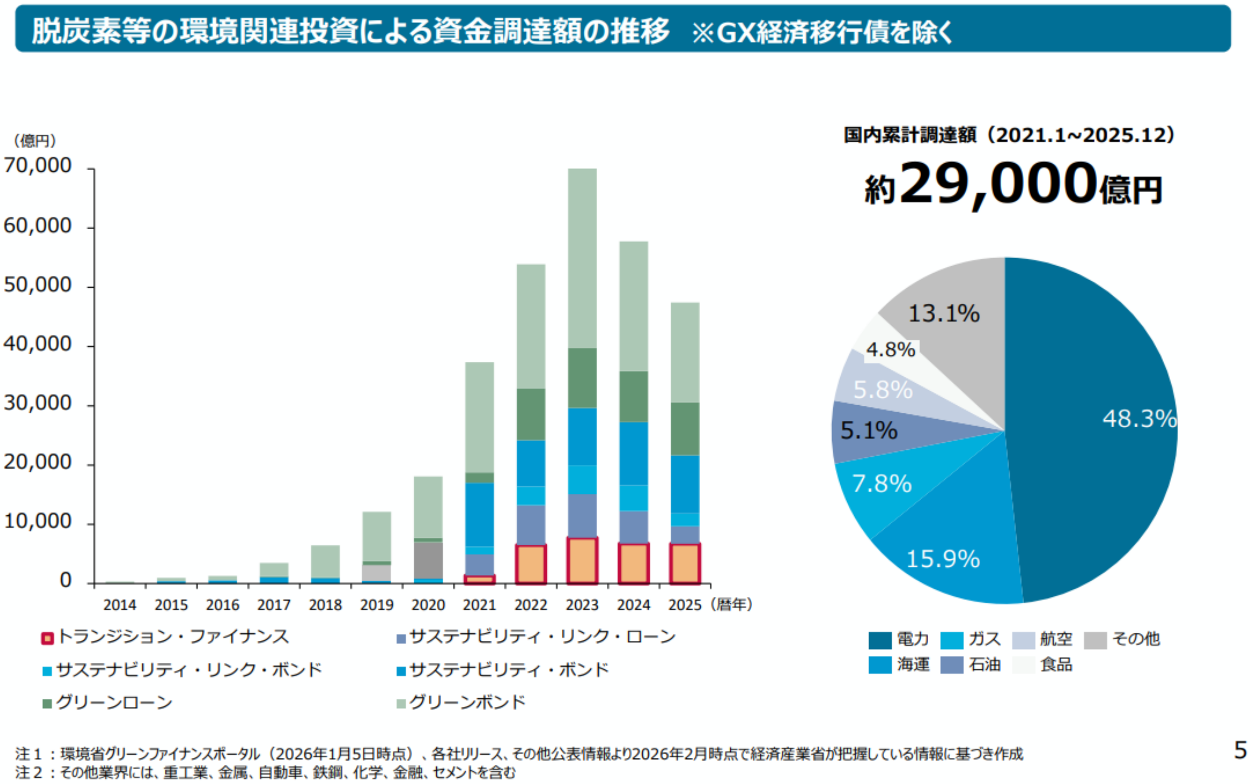
It is worth noting that Japan's Transition Finance Basic Guidelines have, from the outset, identified the issuer's climate transition strategy as a key disclosure element, thereby inherently emphasizing entity-level transition as a core feature of transition finance, in contrast to instrument-level green finance based on taxonomies.

At the same time, the current credibility measures remain primarily oriented toward labelled finance products, with less explicit articulation of how entity-level transition expectations should be operationalized beyond labelled issuances. As the investor findings in this briefing suggest, institutional investors are increasingly evaluating transition at the company level, not just the instrument level—indicating that the framework could be further strengthened by more explicitly extending and clarifying credibility standards for entity-level transition planning.

Predictability and pipeline signals

The GX 2040 Vision and the Seventh Strategic Energy Plan have improved visibility over Japan's medium- to long-term policy direction. The GX 2040 Vision clarifies Japan's pathway for balancing energy security, economic growth and decarbonisation, including corporate governance reforms, incentives for GX-related research and development and growth-oriented carbon pricing. It also identifies priority areas for industrial transformation and energy investment, including hydrogen, green steel and other next-generation energy systems, helping investors understand where new opportunities are likely to emerge.

Figure 3: Increase in Japanese investment in environmentally responsible projects, inc. transition finance



Source: METI, 2026[8]

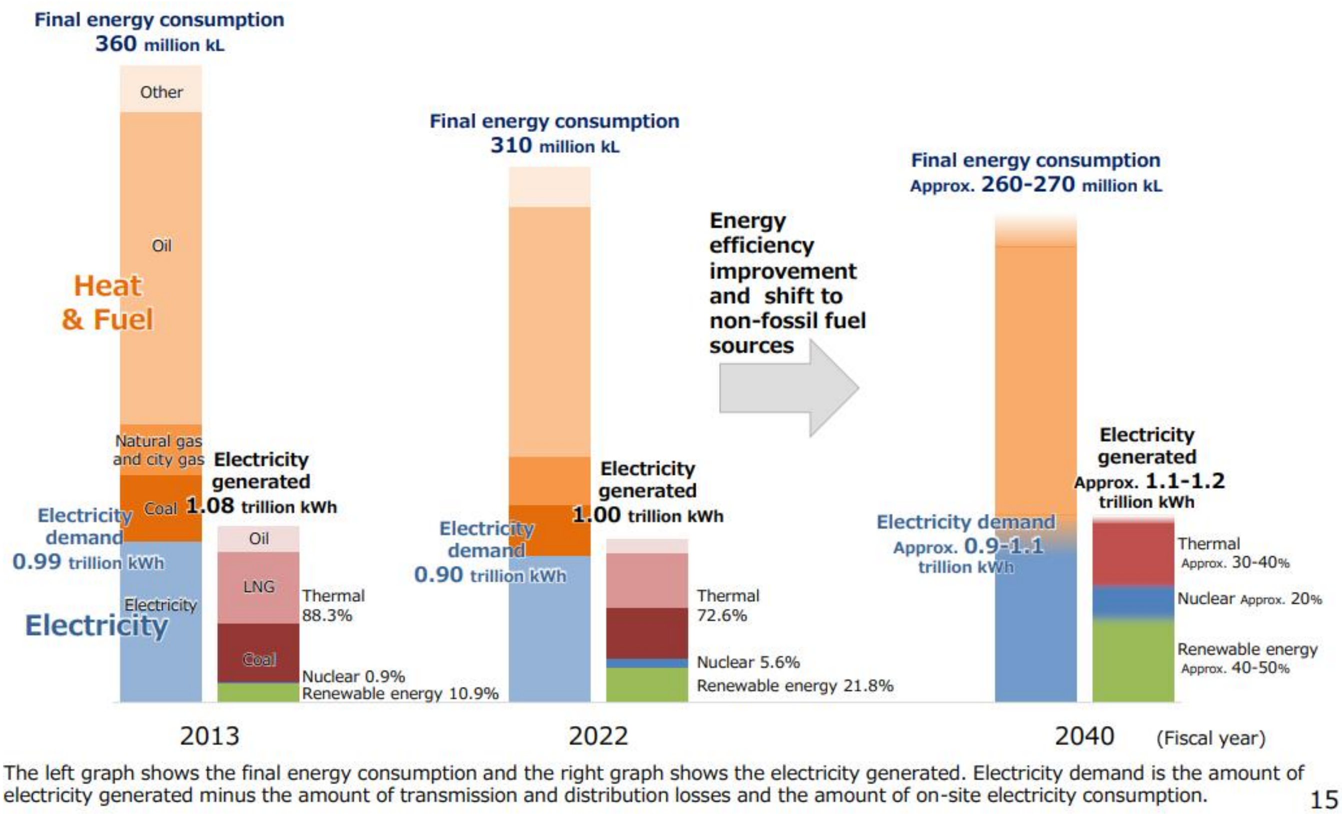
Above, Figure 3 shows an increase in investment in environmentally responsible projects, including transition finance (the orange section on the bar graph on the left) with a total investment of JPY2.9 trillion between 2021 and 2026, almost half of which has been in the electricity sector, showing the impact that these policies have had on overall transition finance investment.[9]

The Seventh Strategic Energy Plan (see Figure 4) complements this by outlining Japan's 2040 energy mix and consistent with a 73% reduction in emissions from 2013 levels. The plan presents a 2040 power mix of around 40–50% renewables, around 20% nuclear and around 30–40% thermal power (including the use of hydrogen, ammonia and carbon-capture storage technologies).

Together, these frameworks provide clearer policy context for investment, though investors still point to bankability and technology-readiness constraints in harder-to-abate sectors.

[8] METI (2026) 第 13 回トランジション・ファイナンス環境整備検討会（Japanese only）
[9] While the absolute amount of investment in transition finance is growing, year on year growth has slowed down, with the amount of transition bond issuance not increasing substantially over the past three years. While this will be explored in subsequent chapters, some investors note that while this partly reflects issues around definition of transition finance, it could be more significantly influenced by issuer-side considerations and costs, such as the need to specify the use of proceeds and additional costs associated with obtaining certification when applying a label.

Figure 4: Outlook for Energy Supply and Demand



Source: METI, 7th Strategic Energy Plan energy mix outlook, February 2025

Enabling long-term capital allocation

A major structural shift came with the adoption of the Asset Owner Principles (AOP) in August 2024[10], a soft-law framework that brings public pensions onto the same footing as other asset owners such as life insurers regarding stewardship expectations and long-term, beneficiary-oriented investing. While the AOP does not alter fiduciary duty itself, it clarifies that asset owners may request sustainability-aware investment approaches from their managers and develop their own sustainability investment policies. Previously, public pensions were prohibited from considering non-financial factors in their investment decisions. Uptake has been rapid: according to the Cabinet Secretariat, the AOP has accumulated 367 asset owner signatories as of May 2026.[11]

The AOP signals that long-term value creation, including consideration of financially material sustainability factors, is consistent with prudent asset owner behaviour. Japan's largest asset owner, GPIF, established the Sustainability Investment Policy to promote sustainability investing across all asset classes.[12]

Additional reviews and guidance, including the updated (in March 2025) Basic Climate Transition Finance Guidelines [13], provide further clarity for investors evaluating transition projects. The guidelines strengthen the credibility of transition finance by setting clear expectations for disclosure, including science-based targets, materiality, governance and transparent implementation. These standards help investors assess whether companies are genuinely aligned with

[10] Cabinet Secretariat, 2024 Asset Owner Principles
Introduced by the Japanese Cabinet Secretariat in August 2024, the Asset Owner Principles aim to enhance fiduciary duty, governance, and risk management for Japanese institutional investors, such as pensions and insurers. The five core principles focus on acting in beneficiaries' best interests, expert decision-making, appropriate investment strategies, accountability, and sustainable investment. As a precursor to the AOP, the Cabinet's 2024 revision of the Grand Design and Action Plan for a New Form of Capitalism clarified that public pensions can consider non-financial factors, including impact, in investment decisions (with a view to enhancing long-term returns) which resulted in the revision on the pension rule (Basic Policy on Reserve Fund Management)

[11] Cabinet Secretariat, 2026 List of signatories of the Asset Owner Principles (Japanese only)

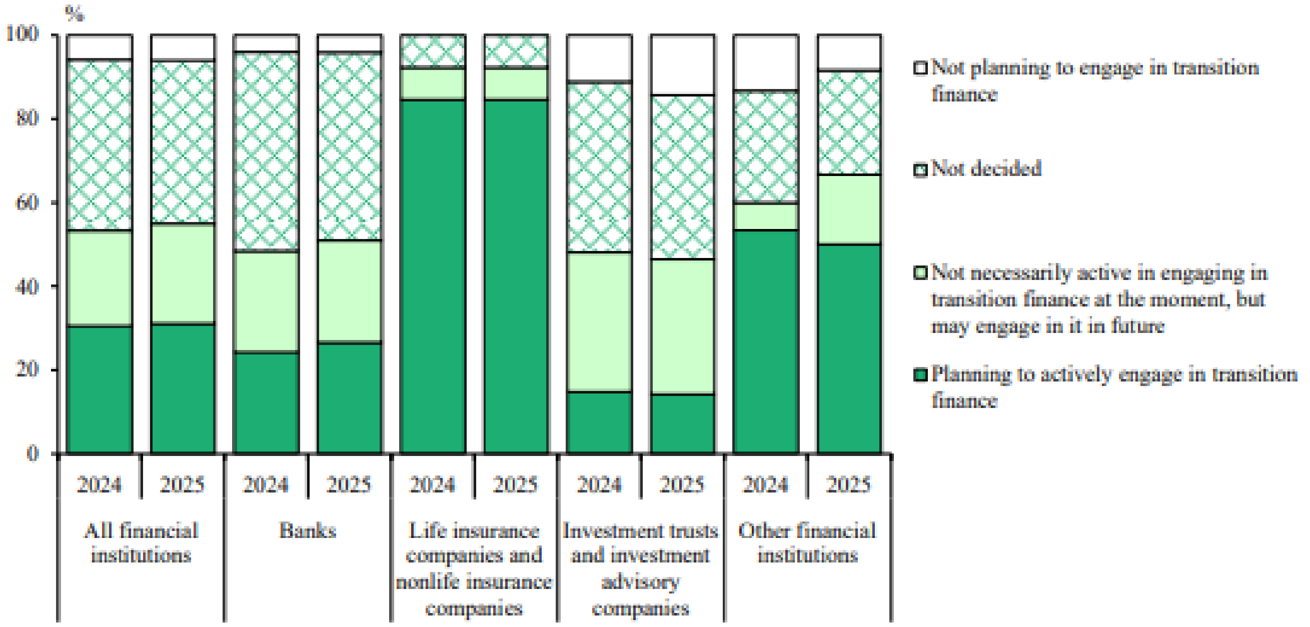
[12] GPIF, 2025 Sustainability Investment Policy

[13] METI, 2025 Basic Guidelines on Climate Transition Finance

long-term decarbonisation pathways and support financing for hard-to-abate sectors in line with Japan's 2050 goals.

For investors, these developments send a signal that long-term stewardship is being embedded more firmly into Japan's financial system. However, the shift is not yet complete. While asset owners are increasingly expected to integrate sustainability factors, the specific role of transition finance within their investment strategies remains under-defined. As a result, investment managers continue to experience uneven demand from asset owner clients for transition-aligned investment products and engagement strategies. Bank of Japan (BOJ) data in figure 5 shows that over 80% of life insurance companies and nonlife insurance companies in 2025 are planning to actively engage in transition finance. This suggests that, as entities that function simultaneously as asset owners and investment managers, insurers can carry their investment strategies seamlessly from formulation to implementation and therefore have greater scope to be more advanced in their thinking on transition finance. Other investment managers may have more challenges in communicating and aligning with asset owners, which could explain the findings in figure 5.

Figure 5: Plans for Engaging in Transition Finance (Financial Institutions)



Note: The total number of respondents was 154 in 2024 and 151 in 2025. These figures represent financial institutions that identified themselves as investors, excluding those who did not provide answers.

Source: BOJ, Financial Markets Department, Results of the Fourth Market Functioning Survey concerning Climate Change, July 2025

How investors are responding

To assess how investors are responding to recent policy developments on transition finance in Japan, information was first collected through an anonymous questionnaire distributed to all PRI signatories in Japan, providing a broad and candid overview of current practices and emerging challenges. These initial insights were then deepened through in-depth interviews with 11 Japanese institutional investors conducted between October and December 2025. The combined findings from these two stages inform the understanding presented in this section.

Broad alignment, cautious language

The need for finance in the global transition to a decarbonised economy is without question, and investors broadly align with the Japanese government definition of transition finance, which actively supports the transition in hard-to-abate, heavy emitting sectors.

However, there is some hesitation to use the "transition finance" label. It stems less from reluctance and more from the perceived lack of a clear definition that makes the label difficult to apply. Some investors are positive toward transition-labelled investments and, as seen in recent discussions, prefer project-based rather than entity-based assessments, with several noting an increase in transition-label loan inquiries. Some are indeed happy to consider financing that is used for capital investments contributing to the transition towards a decarbonised economy to qualify as transition finance and take a proactive stance towards promoting it despite the absence of a widely used, clear definition of transition finance. Domestic corporates can use the label under Japan's GX strategy, however, where this is more difficult is regarding overseas projects in cases where Japanese criteria for transition finance cannot be applied directly, resulting in a wait-and-see approach.

As a result, many investors focus less on the label itself and more on the credibility of a company's transition plan, including targets and disclosures aligned with ICMA guidelines, and generally prefer contextual, company- or sector-specific assessments instead of a binary taxonomy approach.

Reputational (global integrity / alignment), verification and emissions-accounting risks dominate concerns. The ambiguity of the term "transition finance" raises fears of credibility issues and transition-washing, which could lead to reputational damage if projects are later found to be less credible than expected. Additional risks include emissions-related exposure and challenges in due diligence and reporting, as measurement and verification (for example, quantifying emissions reductions from transition projects) remain difficult.

In this context, transition finance generally starts from corporate engagement:

Few investors have set explicit targets for transition finance or portfolio-level strategies, but integration into active ownership and stewardship is clearly increasing.

Examples of projects mentioned include helping companies shift from coal to LNG, scaling renewables, strengthening grid infrastructure and reducing emissions strategically. One approach is to set asset class level targets that drive decarbonisation at the project level, such as combining technologies to align with pathways that limit overshoot above 1.5°C (well below 2°C) and mitigate associated risks based on realistic timelines and technological feasibility.

Capital allocation is mostly assessed on a deal-by-deal basis, often through bonds. Some investors take a company-wide approach to transition finance, engaging at board or director levels, while others address it within working groups, sub-teams, or primarily through bond evaluations. Several noted that, at this stage, discussions don't often extend beyond reviewing specific transition bonds.

Overall, there is an emphasis on engagement and avoided emissions over divestment. This means that avoided emissions continue to be an important measure when assessing progress, and progress checks as part of long-term engagement continue to be utilised.

In interpreting these perspectives, it is important to distinguish between different types of constraints. Some reflect genuine market barriers – such as definitional ambiguity, verification difficulties and the absence of standardised metrics for transition performance – that policy can and should address. Others reflect institutional caution that will not be resolved by policy adjustments alone: for example, the expectation among some investors that government guarantees should underwrite transition investments, or the tendency to wait for peers to move first. A credible policy response should focus on removing structural barriers while setting clear expectations that encourage investors to develop their own transition capabilities, rather than seeking to eliminate all perceived risk from the investment case.

Adoption of transition finance concept is different across investors

Asset owners with in-house investment capacity, namely insurers, show greater uptake of the transition finance concept and integration into processes. This could be due to similar factors that drive their broader engagement in sustainable finance, such as how decision-making can be carried out consistently from the formulation of investment policy through to implementation, making it easier to reflect the significance of transition as well as consideration of long-term risks and opportunities.

Asset owners that work with external managers, namely pensions, have yet to articulate clear signals on transition finance. With the Grand Design and Action Plan for a New Form of Capitalism 2024 and related pension rules revisions clarifying that long-term sustainability considerations and investments that consider social and environmental impacts could be pursued, public pensions may now have more room to start to engage in thinking on transition finance.

Investment managers remain constrained by client mandates, KPIs, and risk-return frameworks when it comes to setting independent company-level definitions or targets for transition finance, but some indicated interest in potential business opportunities associated with GX. A practical challenge remains that some investment managers find it difficult to evaluate corporate-level transitions and explain and justify them as a basis for investment decisions. More consensus-building and familiarity around transition-related investment options would help investors generally, but in particular investment managers, to counter possible perceptions regarding risk-return uncertainty.

Table 1: Indicative patterns based on interviews conducted for this briefing. This is not a comprehensive market mapping

Capability Area	Investment Managers (IMs)	Asset Owners (Pensions)	Asset Owners (Life Insurers)
Integration of transition finance into strategy & analysis	**Highly variable** across IMs	**In progress** (actively considering further integration)	**Advanced** (most integrated into strategy)
Use of labelled instruments	**Medium** (selective adoption)	**In progress** (growing interest as frameworks clarify)	**Medium** (regular but not dominant use)
Role of stewardship	**Highly variable** depending on IM approach	**Medium** (increasing engagement expectations)	**Advanced** (strong emphasis due to long-term liabilities)
Key constraints	Need clear mandate from asset owner clients; KPIs and portfolio risk-return frameworks	Recent fiduciary duty clarification shifting acceptable practices	Not applicable / fewer explicit constraints noted

Turning policy momentum into investment momentum

Three areas of focus can help convert Japan's policy momentum into the investment momentum needed to deliver the transition.

Clear deployment pathways and scalable, investable pipelines

Policy in Japan relating to the transition such as the GX Strategy, the 2040 Vision and the updated NDC provide a consistent reference point for investors. Having this stable and consistent policy sends a strong market signal to investors. Investors also noted that considering the transition more broadly, including its implications for people, livelihoods and long-term economic resilience, can make it easier for institutional investors, particularly asset owners, to assess transition opportunities and risks. Approaching the transition in this more holistic way is also less affected by shifts in political sentiment or issue-specific debates.

However, strong policy signals alone do not automatically drive new finance. There is still some uncertainty regarding specific technologies and sectors, and investors indicated that current policy changes are not yet credibly shaping investment decisions. Better data and transparency remain useful, but they will not be sufficient on their own. The next phase of policy will also need to shape corporate transition planning and investor behaviour more directly.

Investors need clearer guidance on which technologies will be supported, how they will be supported and for how long. While the sectoral roadmap revisions will address this to some extent, continued dialogue between investors and policymakers remains essential. Maintaining concrete frameworks and ensuring policy stability will also help the international investment community understand and support Japan's transition finance approach, particularly where public-private partnerships and adaptable financial schemes can accelerate deployment.

The sectoral roadmaps then need to be translated into bankable project pipelines. Concretely, this means packaging identified priority projects with sufficiently detailed risk profiles, revenue models and public co-financing structures for institutional investors to evaluate. Showing clear linkages between the projects and relevant transition pathways will also aid this evaluation. Mechanisms such as project preparation facilities, standardised transaction templates and public guarantees for first-loss tranches can help bridge the gap between roadmap ambitions and investable propositions. Exploring new technologies is welcome and necessary to achieve long-term goals, but prioritisation and a focus on scalable and reliable options can improve short-term deployment and give investors the confidence that risks and opportunities are being managed effectively.

Enhanced incentive structures to unlock capital at scale

Mobilising transition finance at the scale required will depend not only on clear policy direction but also on the strength and design of incentive structures that can attract different types of investors. Investors noted that policy buffers and subsidies remain essential to ensure that expected returns adequately compensate for transition-related risks and the additional complexity associated with emerging technologies and business models. Expanding the existing GX test cases (which include examples such as Team Sapporo-Hokkaido, a financial consortium aiming to promote GX industries in Hokkaido) [14] and demonstrating their effectiveness in de-risking investments would help provide greater confidence that early-stage projects can progress towards commercial viability.

To further accelerate capital flows, incentives need to be structured to reflect the diverse risk appetites across the investment community. An important distinction is between economic incentives – such as carbon pricing, subsidies and public procurement policies that change the real-economy business case for transition activities – and investment incentives, such as tax credits, blended finance structures and de-risking mechanisms that directly improve risk-adjusted returns for investors. Both are needed and reinforce each other, but Japan's current framework would benefit from greater clarity on how they connect. For many investors, transaction costs associated with transition instruments, as well as existing green premiums in certain technologies or markets, can act as a deterrent. Incentive mechanisms therefore need to be sufficiently attractive to outweigh these costs, particularly for projects in hard-to-abate sectors or in early commercialisation phases.

Investors also emphasised the importance of expanding and clarifying the scope of GX subsidies, guarantees and blended finance tools. Greater clarity regarding eligibility, timelines and the scale of available support would allow investors to better assess opportunities and integrate them into investment strategies. Strengthened public-private collaboration in the design of these tools would also help ensure that they are aligned with market needs and can support both domestic and cross-border projects. Examples of government support already being provided include mechanism such as debt guarantees, equity investments and mezzanine finance through the GX Acceleration Agency[15] and Japan Green Investment Corporation for Carbon Neutrality (JICN)[16].

Beyond incentives, the broader enabling environment also matters. Investors raised the importance of conditions – including credible standards, enforceable regulations and pricing instruments such as the GX-ETS – in shaping the investment case. Where carbon pricing is predictable and rising, it strengthens the commercial logic for transition investments independently of subsidy levels. Where standards set clear expectations for corporate transition planning, they create the market infrastructure investors need to assess and compare opportunities. Ensuring these measures are well sequenced and mutually reinforcing will be critical to moving from policy ambition to capital mobilisation at scale.

Ultimately, incentive structures must not only compensate for financial risk but also offset potential transactional and reputational costs, shifting the conversation away from expectations of government guarantees and instead grounding investor participation in rational, market-based incentive design that enables a wider range of investors to engage confidently in Japan's transition finance ecosystem.

[14] Team Sapporo-Hokkaido GX Financial Consortium
[15] The GX Acceleration Agency was established in 2024 as part of the Japanese Government's GX (Green Transformation) policy initiative to realize GX investment of over 150 trillion yen in the next 10 years, and is responsible for creating and strengthening frameworks to promote blended finance through instruments such as guarantees and equity investment.
[16] JICN (2026) Japan Green Investment Corporation for Carbon Neutrality Company Profile

Addressing interoperability, verification and cross-border confidence

Along with enhancing incentive structures, addressing both real and perceived risks is essential for scaling transition finance. Investors increasingly emphasise the importance of interoperability and transparency across markets.

Recent international developments, including ICMA's November 2025 guidance on climate transition bonds and its accompanying issuer handbook, LMA's Transition Loan Principles and Guide to Transition Loans are seen as particularly useful tools[17]. These resources help clarify expectations for credible transition bonds and improve the international alignment of market practices, which is becoming a critical factor for investors allocating capital across borders. To support the flow of international capital to the Japanese market, continued alignment with these global frameworks as provided by ICMA or ISSB will ensure usability for global investors and avoid fragmentation risks.

At the same time, investors emphasise the need for stronger verification mechanisms to demonstrate that financed activities genuinely contribute to a meaningful low-carbon transition. Enhanced government or third-party verification can increase confidence in the credibility of transition-related claims and provide greater assurance when supporting specific technologies. This extends to the development of robust standards and conditions for carbon credits and carbon pricing, as well as greater interoperability among schemes to mitigate risks arising from overlapping or inconsistent frameworks.

Where transition finance is required in markets without clear national decarbonisation pathways, investors face additional uncertainty in assessing risk and opportunity. METI's role in platforms such as AZEC and its efforts to enhance blended finance infrastructure could help address these structural challenges and give investors greater confidence in long-term transition trajectories. By strengthening the overall framework, these measures can reduce legal risks and support broader private-sector participation.

Japan now has an opportunity to translate a largely comprehensive policy architecture into more investable pipelines, clearer investor signals and stronger international interoperability. The investor perspectives in this briefing suggest that progress will depend on delivering those next-step implementation priorities.

[17] METI (2026) 第 13 回トランジション・ファイナンス環境整備検討会（Japanese only）