

Sustainability Policy of Japan Finance Organization for Municipalities



June 2023

Japan Finance Organization for Municipalities

1. Introduction

This policy sets forth the basic policy on sustainability matters of the Japan Finance Organization for Municipalities (“JFM”). All business activities of JFM will be conducted in accordance with this policy.

In this policy, JFM’s sustainability matters refer to concepts that include its contribution to the creation of sustainable local communities, as well as its consideration of environmental, social and governance (ESG) factors in its business activities.

2. Implementation System

The Sustainability Committee has been established as a body to deliberate on the overall sustainability initiatives of JFM. The Sustainability Committee is chaired by the president and CEO and composed of all senior executive directors, a director-general, a chief credit officer, and internal auditors.

In order to identify and review issues related to sustainability, the Sustainability Committee deliberates on Environmental issues, such as climate change; Social issues, such as diversity, the work environment, and human rights; and Governance issues, such as ethics and legal compliance.

3. Basic Policy

Pursuant to its mission and management philosophy, JFM will, throughout its entire business covering lending to local governments, funding and support for local governments, give consideration to ESG factors, not only in terms of the nature of its business but also the manner in which it conducts its business, and thereby contribute to the sustainable development of local communities.

<JFM’s Mission>

JFM will, as a joint funding organization for local government borrowings that is wholly owned by all Japanese local governments, provide local governments with long-term, low-interest funding and fine-tuned support according to their policy needs, pursuant to its mission of "supporting local economies through finance to create a future for regions," and thereby will contribute to the sound financial management of local governments and the welfare of local residents as well as the sustainable development of local communities.

<Management Philosophy>

- 1 Being Responsive to Local Government Needs
- 2 Strengthening Confidence from Capital Markets
- 3 Ensuring Responsible Corporate Governance as a Joint Organization of Local Governments

3.1. Consideration for the Environment

3.1.1. Loans to Projects that Contribute to Environmental Improvement

JFM will, based on the Local Government Borrowing Programme prepared by the national government, provide funding to local governments for various businesses that serve to improve the environment, including sewerage and water service businesses. In providing the funding, JFM will take advantage of sustainable finance, including green bonds, as a means to procure loan sources, and direct funds from ESG investors towards environmental improvement initiatives in local communities, thereby contribute to the creation of a virtuous cycle for solving environmental issues.

3.1.2. Initiatives at JFM's Office

JFM will encourage its office to conserve electricity, promote green procurement (purchasing goods with less environmental burden) and other initiatives that contribute to the reduction of environmental burden, and thereby show consideration for the environment.

3.2. Fulfilling Social Responsibility

3.2.1. Sustainable Development of Local Communities

With the fundamental aim of promoting the welfare of local residents, local governments in Japan provide a wide range of administrative services that are closely related to the lives of residents. To ensure that local governments provide administrative services stably and sustainably, the national government has established a local finance system to guarantee financial resources for local governments at the macro and micro level (local taxes, local allocation taxes, local government borrowings, etc.). As a joint funding organization for local government borrowings, JFM plays a role in the local finance system and is essential for the stable administrative and financial management of local governments.

Under such a system, JFM will provide long-term, low-interest funding to local governments based on the Local Government Borrowing Programme, and thereby contribute to the creation of sustainable local communities, including the maintenance and improvement of social welfare, development of disaster-resistant communities, and development of environmentally friendly communities, including in terms of decarbonization.

In addition, JFM will, as a good partner for local governments, carry out necessary investigations, research and support, according to local policy needs, on various issues faced by local governments, such as ensuring fiscal soundness and financing; support them in solving those issues; and thereby contribute to the creation of sustainable local communities.

3.2.2. Contributing to Capital Markets

JFM will, in order to procure necessary funds from the capital markets in a stable manner as a joint funding organization for local government borrowings, make use of a variety of procurement methods and take flexible and timely actions in accordance with the needs of the capital markets. Through such

activities, JFM will enhance its presence as a leading public-sector bond issuer and actively contribute to the sound development of capital markets.

3.2.3. Inclusive and Vibrant Work Environment

In order for JFM to fulfill its mission over the long term and contribute to the creation of sustainable local communities, it is important for JFM itself to be a sustainable organization. Therefore, in order to create a work environment in which all employees can work with vigor and peace of mind, JFM will respect human rights, prohibit discriminatory behavior and any type of harassment, and promote initiatives to ensure work-life balance, thereby showing consideration for the maintenance and improvement of employees' mental and physical health.

Furthermore, JFM will ensure human resource development that respects the autonomy of employees and their willingness to take on new challenges when fostering human resources in order to build an organizational culture in which everyone can feel a sense of job satisfaction and play an active role. At the same time, JFM will provide a work environment in which human resources with diverse backgrounds, irrespective of gender, age, or disability, can mutually share and enhance their knowledge and experience and maximize their potential.

3.3. Robust Governance

3.3.1. Organizational Structure

In order to ensure appropriate management as a joint funding organization that is wholly owned by all Japanese local governments, JFM has set up the Representative Board, which is comprised of representatives from local governments, etc., as its supreme decision-making body so that the local governments, i.e., the funders themselves, take responsibility and engage in management autonomously and independently. In addition, JFM has a robust governance structure with various checking functions, including external audits and the Supervisory Committee, which consists of individuals with significant expertise in appropriate risk management, local government administration and finance, economics, finance, laws and accounting. With such a system, JFM will strive to secure the confidence of the capital markets far into the future by maintaining a sound and appropriate financial structure.

3.3.2. Respect for Human Rights and Legal Compliance

JFM respects human rights and complies with various laws, regulations and ethical standards in all its business activities. In the unlikely event that a violation is detected, JFM has a system that enables it to take prompt and appropriate action, such as establishing a compliance committee.

4. Dialogue and Disclosure

4.1. Dialogue with Local Governments

With the aim of growing sustainably together with local governments as a joint organization of local governments, JFM will hold dialogues through a variety of channels to appropriately identify and analyze local governments' needs, and will carry out business operations accordingly.

4.2. Dialogue with Investors

As a leading public-sector bond issuer, JFM will hold constructive dialogues with domestic and foreign investors to meet market expectations.

4.3. Appropriate Disclosure

JFM is able to carry out smooth business operations based on the confidence of external parties, including the capital markets. In order to maintain and strengthen this confidence, JFM will disclose financial and non-financial information, including sustainability matters, in an active, timely and appropriate manner to ensure transparency.