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*Japan-U.S. Symposium on Building
the Financial System of the 21st
Century*





Green Finance, Robinhood and the Socialization of Finance: Good or bad?



Potential of Green Finance

- Rapid growth of green finance
 - Profusion of green bonds, green funds
 - Appear to have strong returns
 - Particularly popular among younger investors, suggesting continued growth potential
- Has potential to support important environmental and climate goals
 - Decarbonization and development of new energy sources
 - Allocating capital to green uses may induce technological developments
 - Raising cost of capital for polluters and greenhouse gas emitters may speed energy transitions
- Japan seeking leadership role
 - Support for sustainable development globally
 - BOJ climate change strategy to support green activities domestically
- COP-26 again demonstrates enormous need for green finance



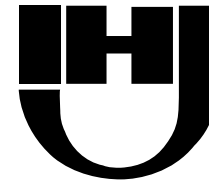
Challenges Facing Green Finance

- Magnitude of the challenge
 - Energy transitions and decarbonization will require enormous new funding
 - Even ambitious decarbonization targets may be insufficient
- Definitions and monitoring
 - Still lacking universally-agreed definitions and data standards (though some progress – e.g., IFRS)
 - Monitoring of behavior difficult, especially down the supply chain
 - “Greenwashing” is a constant challenge
- Trade-offs
 - Different aspects of “green” may conflict – how should investors assess trade-offs?
 - Many funds advertise as ESG, but environment, social, and governance may be at cross-purposes
 - To maximize environmental impact, may need to shift focus from ESG to green-only
- Effectiveness
 - Will returns remain attractive enough to generate necessary funds?
 - Are we seeing a green bubble? Will investors lose interest in new energy financing if it bursts?
 - How important is voluntary green investment compared to regulation or global carbon tax?
 - “Disclosure doesn’t get you to decarbonization” International cooperation
 - Difficulties of getting global agreement
 - China-U.S. cooperation necessary but difficult



Robinhood and the Democratization of Finance

- New, inexpensive opportunities to retail investors
 - In U.S., luring new investors and providing access to lucrative products
 - Young Japanese investors turning to fintech platforms like Rakuten, Monex
 - Business models differ
 - Robinhood uses payment for order flow (PFOF)
 - PFOF is illegal in Japan, so fintechs there rely on commissions or advising
- Developing new generations of investors
 - Potential to make Japanese savers into investors?
 - Most Japanese savings still held in low-return investments
 - Platform investing could provide risk capital for economic renaissance
 - So far, however, impact limited
 - Educating retail investors?
 - Market information has become much cheaper
 - But inexperienced investors often unable to contextualize market information or to identify misinformation
 - Advising is important part of some Japanese trading platforms' revenue



Risks and Challenges

- Potential hazards for retail investors
 - Encouraging trading rather than investing?
 - Access to instruments they may not understand or be able to manage
 - U.S. platform investors increasingly interested in options, crypto
 - Ability to trade on margin can amplify individual risks
 - Limited investor education
- Possible systemic risks of fintech platform trading
 - Potential for herd behavior among retail investors
 - Do fintech platforms enable market manipulation and mispricing? (Gamestop)
 - Are platforms responsible for misinformation and market manipulation?
- Role of regulators
 - Need to ensure market integrity – reduce misinformation, manipulation
 - Investor protection (and education?)
 - Should we be regulating people's choices? Or just ensuring proper disclosure and availability of quality information?



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