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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

- Definitions and monitoring
  - Still lacking universally-agreed definitions and data standards
    - Some progress – e.g., IFRS, EU taxonomies
  - Monitoring of behavior difficult, especially down the supply chain
- Trade-offs
  - Different aspects of "green" may conflict – how should investors assess trade-offs?
    - E.g., nuclear energy doesn't emit carbon, but creates radioactive waste
  - 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?
    - What happens if it bursts – loss of interest in new energy financing?
  - How important is voluntary green investment compared to regulation or global carbon tax?
    - "Disclosure doesn't get you to decarbonization"
    - Markets ultimately reflect profitability
- 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?