Investor update

Japanese Megabanks shareholder proposals

Improving climate governance and client transition assessments

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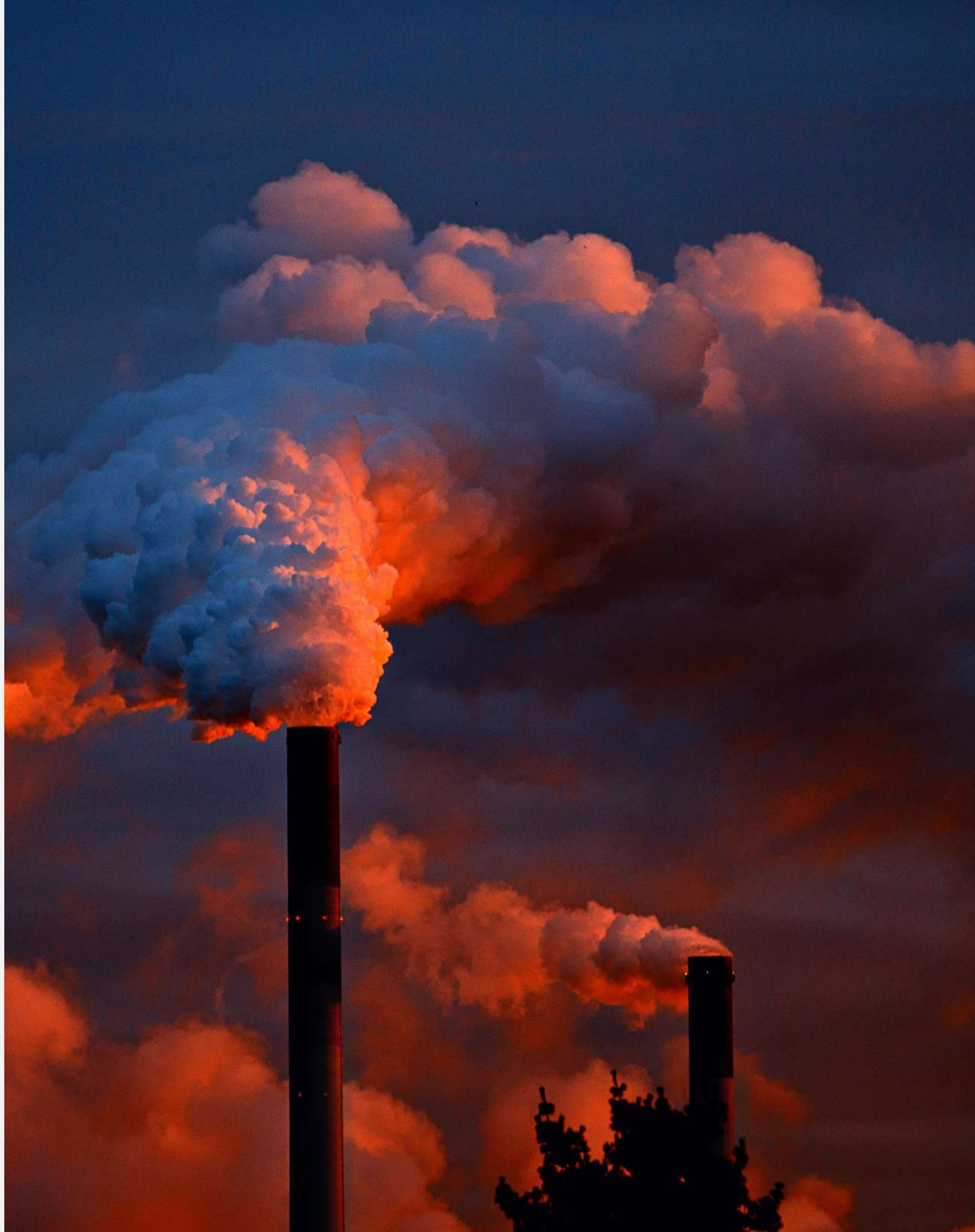
APRIL 2024



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Outline

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Executive Summary

The Japanese Megabanks **are among the world's top 10 financiers of the fossil fuel industry*** and are **failing to adequately manage climate-related financial risk** to their companies. To address these failings, we propose the following policy reform:

Disclosing effective transition plan assessments for clients: MUFG, SMBC, and Mizuho are contradicting their pledges to global net-zero emissions by 2050, funneling $545 billion into the fossil fuel industry since the Paris Agreement. They persist in financing firms misaligned with climate objectives. Clear frameworks for evaluating customer transition plans are imperative to meet the banks' climate commitments.

Ensuring fit for purpose governance: The current Megabank boards do not appear to have the capacity to oversee climate risks and opportunities. For the boards to effectively assess decarbonisation pathways or strategy effectiveness, and mitigate associated financial risk, the boards need to equip with directors with climate expertise.

The outcome of our proposal will increase the corporate value of Japanese Megabanks by enhancing the management of climate-related financial risks and business opportunities.

*In 2022. Source: Banking on Climate Chaos

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Megabanks continue to pour billions into fossil fuel expansion, undermining climate commitments and exacerbating acute and systemic risks

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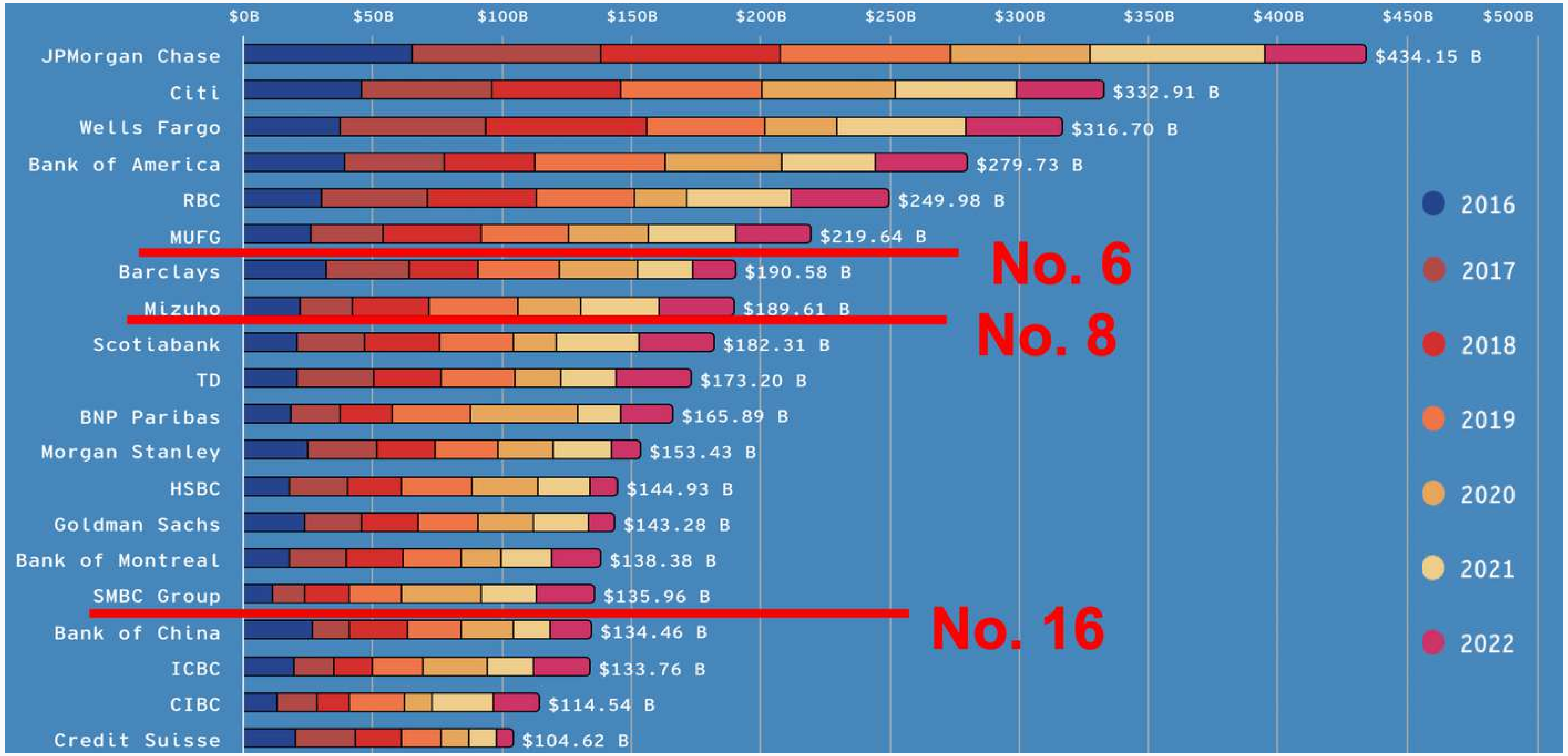
Cumulatively, the Megabanks are among the top global fossil fuel financiers since the Paris Agreement

Total financing to fossil fuel sector



Source: Banking On Climate Chaos 2023

2023 lending figures (due out in May 2024) are expected to place the Japanese banks even higher in the rankings

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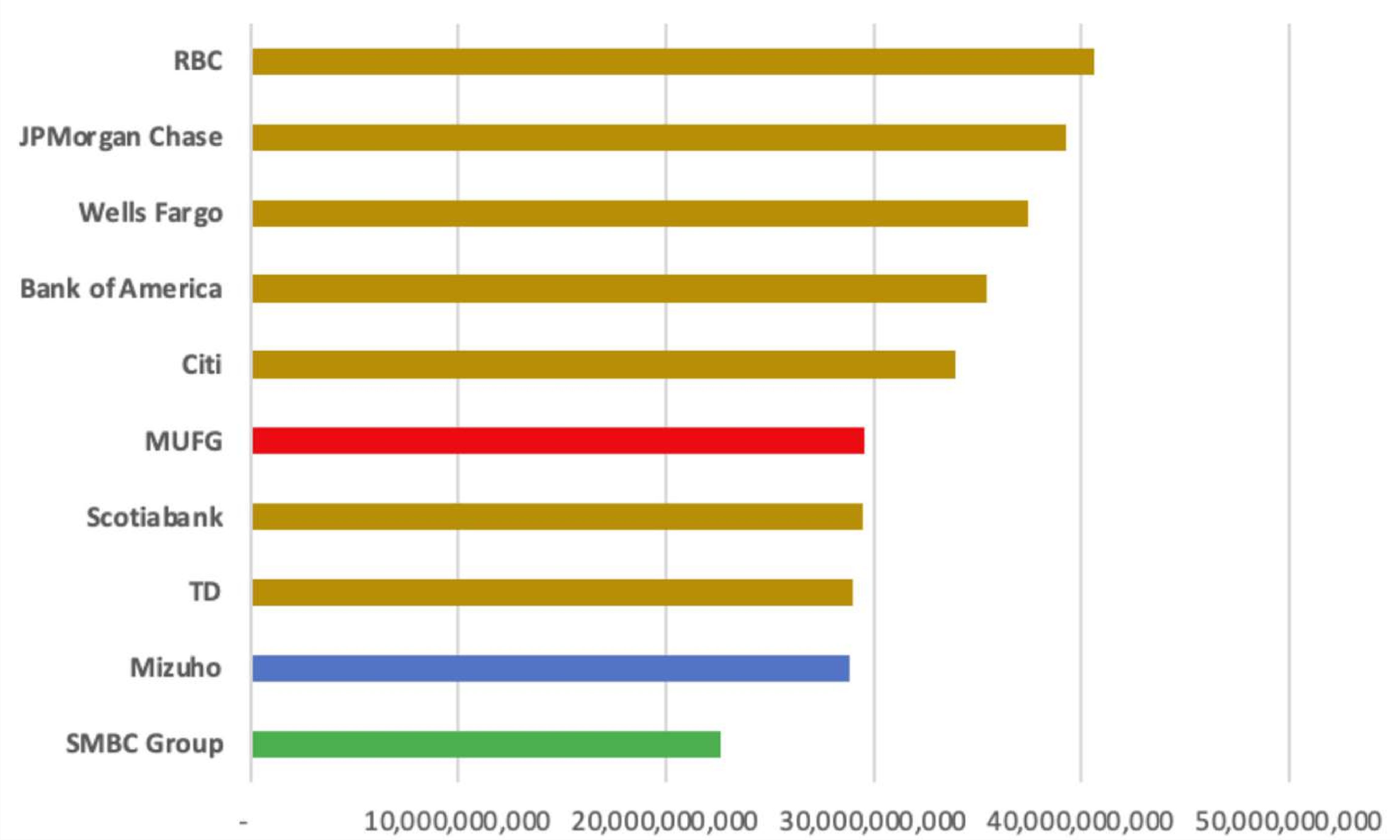
All Megabanks fall within the top 10 banks financing fossil fuels in 2022

The world's top 10 fossil fuel financier in 2022



Source: Banking On Climate Chaos 2023

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Megabanks do not have effective decarbonisation strategies and policies to reduce capital allocation to misaligned activities

Transition Pathway Initiative **scores on decarbonisation strategy (capital allocation to misaligned activities)**	MUFG SMBC Mizuho	HSBC	ING
Has committed to **end all project financing** dedicated to the exploration and development of **new oil and gas fields**?	✗	✓	✓
Has committed to **end all on- and off-balance sheet activities** dedicated to the exploration and development of **new oil and gas fields** misaligned with a 1.5°C pathway?	✗	✓	✓
Does the bank's oil and gas policy include an **exclusion threshold for investees with oil and gas expansion plans** or with operations in unconventional oil and gas?	✗	✗	✗

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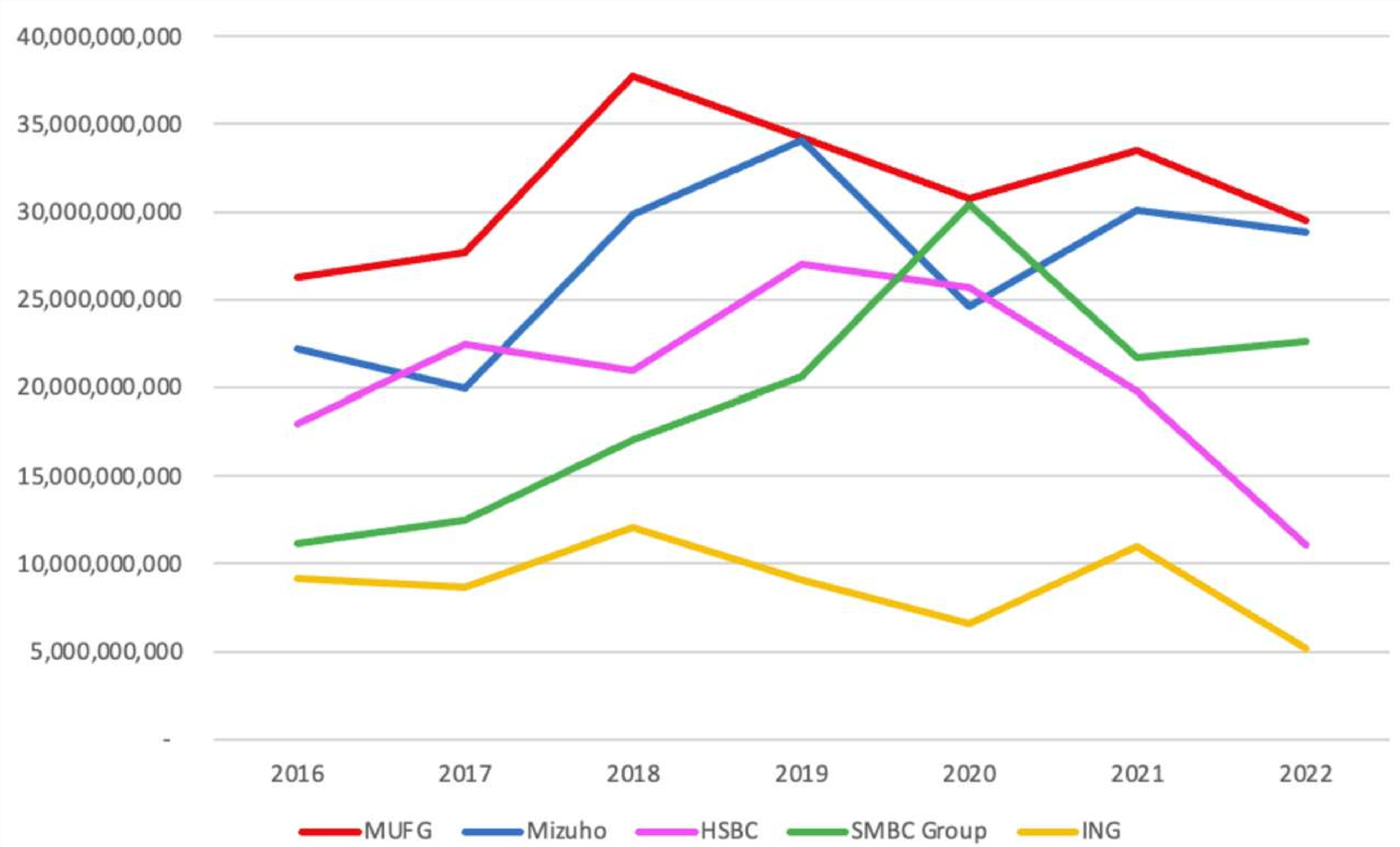
Megabanks have failed to phase down fossil fuel financing compared to peers with better policies

Financing for all fossil fuels (USD)



Data source: Banking On Climate Chaos 2023

Megabanks leave room to finance coal in 2024

CASE STUDY

IEA NZE requirement	No new fossil fuel supply projects to be developed. No new thermal or metallurgical coal mines or extensions.
Peer comparison	Unlike HSBC and JP Morgan, Megabanks' policies don't rule out financing companies building expanded coal mines (even though most finance to the sector is through corporate finance). Also, unlike HSBC and Westpac, the Megabanks' policies don't rule out financing new metallurgical coal mines.
Megabanks can still finance...	**Adaro Energy Indonesia (Adaro)** - a thermal coal mining company previously financed by the Megabanks. Adaro's Decarbonisation Journey is not credible or Paris Agreement-aligned and includes plans to expand coal production. Adaro derived 98% of its 2022 revenue from coal.

Find out more

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Megabanks continue to finance oil and gas, including risky upstream and LNG infrastructure projects

CASE STUDY

IEA NZE requirement	No new gas fields. "A global [LNG] supply glut forms in the mid-2020s and under construction projects are no longer necessary." (p. 139)
Peer comparison	Unlike Commbank and OCBC, Megabanks have no policies to rule out financing new and expanded gas projects and no policies to incentivise client transition.
Megabanks can still finance…	US Gulf projects including the expansion of **Cameron, Rio Grande and Freeport** LNG export terminals. These projects, which Megabanks have financed before, are associated with considerable risk because of environmental harms to local communities and fisheries, and because of the Biden Administration's pause on LNG export permits.

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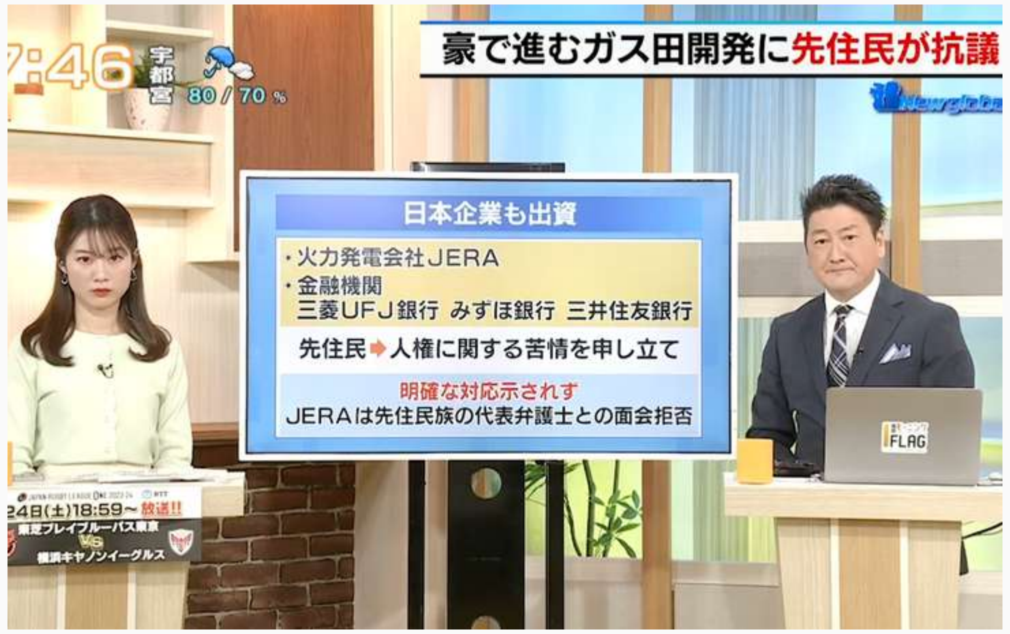
Enabled by a lack of effective policy, Megabanks are risking their reputation on Barossa and Darwin LNG...

...projects fiercely opposed by local communities that threaten Indigenous rights, sacred sites, and natural environments.



Indigenous People protest against gas development project in Australia Tokyo MX TV’s 8 bit news

Tiwis take on Tokyo to tame gas project

Eryk Bagshaw
North Asia correspondent

Pirrawayingi Puruntatameri pictures the turtles, the totems and the songlines that course through the Tiwi Islands, population 2400, just north of Darwin.

Sixty thousand years of ancient Indigenous Australian culture are preserved on the islands that separated from the Australian mainland after the last ice age 9000 years ago.

In downtown Tokyo, population 14 million, there are few wild turtles, no coral reefs and no songlines.

But there are three Tiwi Islanders making a last-ditch effort to stop one of the world's largest mining projects from running gas past their islands to Darwin and then on to ships to Japan.

Puruntatameri, a Munupi traditional owner, and his fellow islanders Therese Bourke and Antonia Burke have found themselves at the centre of a battle not just with one of the world's biggest energy companies but with the might of the Japanese economy and three of its heaviest hitters: the JERA power company, Sumitomo Mitsui Banking Corporation and Mitsubishi UFJ Financial Group.

The corporate giants have invested more than a billion dollars in the Santos Barossa project to get energy pumping into the gas-starved Japanese economy. The $5.8 billion project is the largest investment in Australia's oil and gas sector in more than a decade and will be able to produce 3.7 million tonnes of LNG per year.

"We're here to tell people about our culture and spiritual connection to the sea, as well as the land because that has been so important to us for thousands of years," Puruntatameri said on a cold and wet winter's day in Tokyo last week.

"We're not going to let it go that easily just because someone wants to do something for the sake of making money."

Resources giant Santos was forced to consult Indigenous leaders over the mega project in 2022 after the Federal Court ruled in favour of Tiwi Islanders who were concerned about its environmental and spiritual impact.

In December, the National Offshore Petroleum Safety and Environmental Management Authority gave Santos approval to begin drilling at the liquified natural gas (LNG) field 285 kilometres off the coast of Australia. Then in January, the Federal Court ruled that Santos could push ahead with constructing the pipeline to Darwin. In her judgment that lifted the injunction placed on the project, Justice Natalie Charlesworth said concerns about the pipeline's effect on a rainbow serpent named Ampiji and a songline about a Crocodile Man were not widely held among Tiwi Island traditional owners.

She also criticised evidence tendered as "cultural mapping" to try to stop the project as "so lacking in integrity that no weight can be placed" on it.

Charlesworth said that differing accounts from witnesses led her to conclude the beliefs and customs that formed the intangible cultural heritage the applicants claimed could be damaged by the pipeline were not broadly accepted within their communities.

In October, Labor's Northern Territory Mining Minister Nicole Manison praised the multinational for its "very extensive job making sure that traditional owners have access to all the facts about the project".

But some islanders are still not

(From left) Antonia Burke, Therese Burke, and Pirrawayingi Puruntatamri in Tokyo. Photo: Christopher Jue

Tiwis take on Tokyo to tame gas project they say threatens their island culture Sydney Morning Herald

Indigenous Australians visit Korean Parliament to demand companies halt gas project M Economy News

Find out more

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Without effective policy, the Megabanks are also at risk of financing these carbon intensive expansion projects

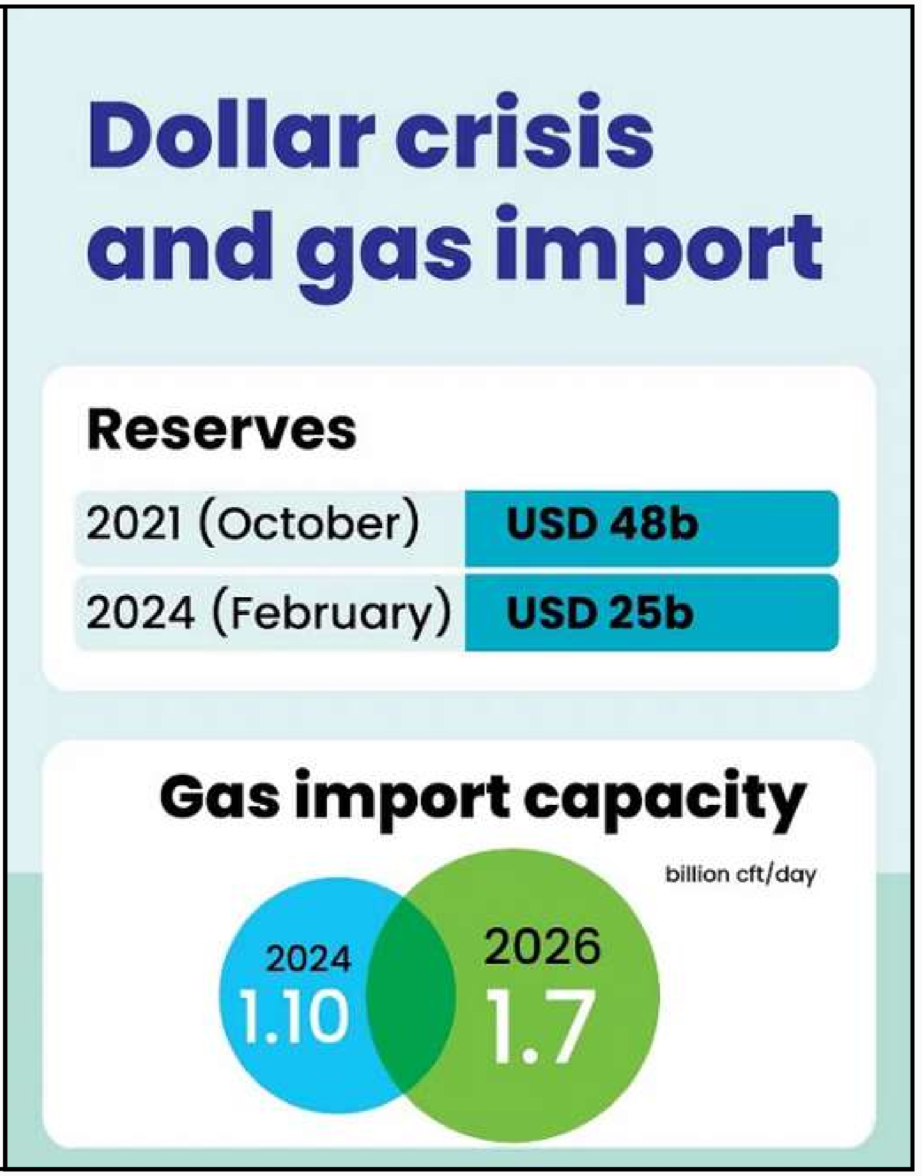
CASE STUDY

Megabanks can still finance...

A carbon bomb in Chattogram, Bangladesh of close to 20GW, with lifetime emissions of 1.38 billion tonnes of CO_2-e, threatening the climate, local ecosystems and communities.

- MUFG is reportedly providing Financial Advisory Services (FAS) for imported LNG-based gas-fired combined cycle power plants with 500 to 600 MW capacity in Chattogram. SMBC is reportedly providing FAS for 1.4 GW gas-fired power plant in Chattogram.

- **TOO EXPENSIVE**: The Bangladesh government was forced to seek a US$2.1b loan to afford fuel imports and manage the country's ongoing gas crisis. Bangladesh's LNG deals are "priced higher than the prevailing market due to the sovereign guarantees needed and Bangladesh's lower credit rating"(S&P Global). By 2030, its annual LNG import cost would be an estimated US$8.4 billion. If LNG prices remain high, project developers and their investors risk failing to recoup costs if Bangladesh is unable to afford expensive LNG.



Graphic source: https://en.prothomalo.com/bangladesh/yum5wyt1lu

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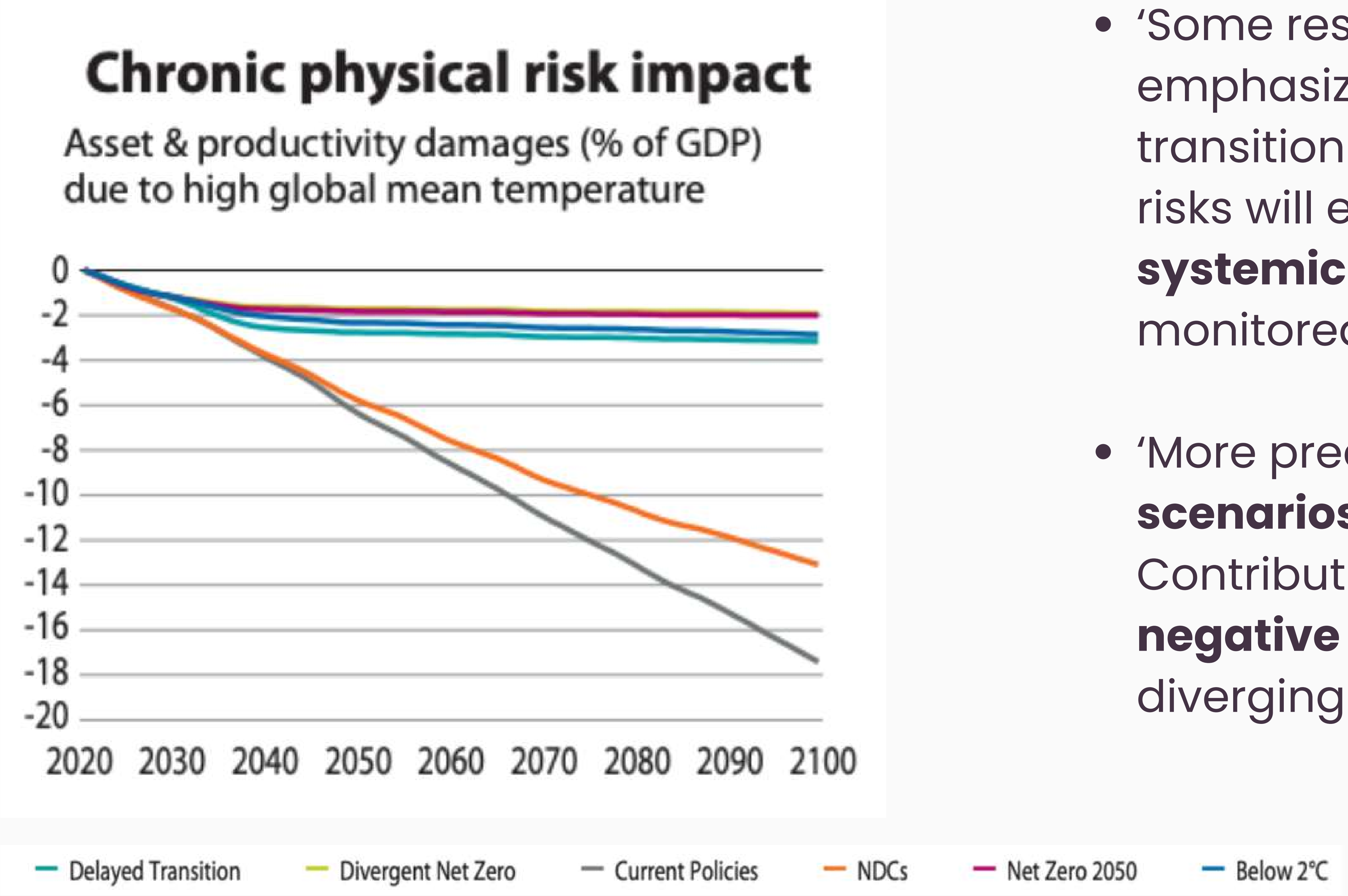
By not having effective decarbonisation strategies, Megabanks undermine their own climate commitments and exacerbate systemic financial risks



- 'Some respondents [from financial authorities] emphasize… that unless an orderly and fast-paced transition process is implemented, climate-related risks will end up representing a major source of **systemic risks in the future**, and hence need to be monitored closely.' (FSB 2022)

- 'More precisely, **physical risks in hot house world scenarios** (Current Policies or Nationally Determined Contributions scenarios) **will lead to the strongest negative impacts on GDP** with economic cost diverging significantly after 2040. (NGFS 2022)

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By failing to meet their own commitments, the Megabanks also put themselves at risk of greenwashing claims

Decarbonisation sector	Science says	MUFG	SMBC	Mizuho	Comments
Power	IEA NZE(p.128): "By 2030, global power sector emissions are down about… 45% in the NZE Scenario" and down to net zero by 2045	✗	✗	✗	Megabanks' intensity targets for 2030 range from a below 2 degrees scenario.
Oil and Gas	IEA NZE: Compared to 2022, emissions from oil and gas fall 26% by 2030 53% by 2035	✗	✗	✗	2030 target ranges set by Mizuho and SMBC start from just 12% and MUFG from 15%. All of them are limited to upstream business, excluding significant midstream and downstream emissions.
Coal mining	IEA NZE(p.143): "In the NZE Scenario, global coal production declines by 45% to 2030 and a further 85% between 2030 and 2050"	▲	▲	▲	Megabanks have targets to reduce **thermal** coal mining financed emissions or loan balance to zero in 2030 for OECD countries and in 2040 for the rest of the world.
Coal power	IEA NZE(p.127): "By 2030, with new construction slowing and efforts to transition away from coal underway in many countries, the share of unabated coal in electricity generation falls below… 15%"	✗	✗	✗	Megabanks only have targets to reduce coal power loan balance to zero by 2040.

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Megabanks must disclose clear criteria and processes to assess high-emitting clients’ transition plans

Megabanks current approach lacks clarity for clients

Japanese Megabanks emphasise the importance of engagement with their clients to understand and support clients' transition strategies, but...

I. Megabanks **do not require** their clients to have **credible 1.5°C pathway-aligned transition plans and strategies**, undermining the central purpose of transition finance.

II. Megabanks **do not have a clear process, timelines, or metrics** to evaluate clients' progress and to determine whether to continue financing to clients who lack plans to align with 1.5°C-degree pathways.

As a result, **investors cannot be confident if megabanks approaches to support client transition are effective.** Megabanks can face **financial risks and reputational risks** associated with continued support to companies not transitioning adequately, and risks associated with the banks not meeting their own net-zero commitments.

Risks of inadequate client transition plan assessments - Default risk

Megabanks face financial risk by funding companies expanding sectors incompatible with climate goals, exposing them to increasing transition risk.

- IEA: “The volatility of fossil fuel prices means that revenues could fluctuate from year to year – but the bottom line is that **oil and gas becomes a less profitable and a riskier business as net zero transitions accelerate**.” “If all national energy and climate goals are reached, this [oil and gas companies] **value is lower by 25%, and by 60% if the world gets on track to limit global warming to 1.5 °C**.”

According to studies on European banks, banks with significant exposure to fossil fuel assets could be at risk of not having sufficient equity to cover their losses if global warming is limited to 1.5 °C.

2023 saw a 26% rise in companies defaulting on loans in Japan. Financial experts have recently questioned the Megabanks’ ability to detect accounting fraud on the part of Japanese companies.

Without proper assessment criteria and procedures in place, Megabanks’ substantial exposures to fossil fuel companies leave them at risk.

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Risks of inadequate client transition plan assessments - Falling short of investor expectations

Megabanks do not meet investor expectations:

- TPI: Bank decarbonisation strategies must include '**financing conditions for high-emitting sectors linked to a 1.5°C pathway**' and **'explicit criteria for withdrawal of financing from misaligned fossil fuel activities**'. The three megabanks scored low on this point. (See Slide 8)

- SBTi Position Paper: one of the four requirements for net-zero science-based targets for financial institutions (FIs) is 'Transition', where "FIs shall engage existing fossil fuel company counterparties to achieve 1.5°C transition [sic] **using quantitative and qualitative criteria and public transition plans**."

This sets the Megabanks behind their peers, risking their reputations in financial markets.

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Megabanks’ engagement approach lacks clear consequences when clients fail to present credible transition plans

From Megabanks’ disclosure, it is not clear if banks **require** clients to demonstrate **credible transition plans** for banks to continue supporting them. Megabanks also do not stipulate clear timelines for clients to develop credible transition plans.

Considering investor expectations, credible transition plans include, but are not limited to:

- Aligned with a 1.5°C pathway:
    - Short, medium and long-term Scope 1, 2 and 3 greenhouse gas emissions reduction targets
    - Capital expenditure plans
- No unreasonable reliance on carbon offsets or negative emissions technology to achieve emissions reductions.

Megabanks do not meet these requirements and are falling behind competitors. See Annexes (slide 36&37) for detail.

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Risks of inadequate client transition plan assessments - Legal and regulatory risk

Megabanks' engagement approaches lack credibility; their criteria for assessing clients' transition plans are unclear. Additionally, they promote **'transition finance'** to continue to support fossil-fuel based technologies, which seems economically and environmentally questionable. This exposes the banks to legal and regulatory risk as they can be accused of greenwashing.

Greenwashing claims can have a wide range of legal and regulatory foundations

- Law of misrepresentation/negligent misstatement,
- Advertising codes,
- Consumer protection law,
- Market disclosure regulation,
- Breach of contractual provisions,
- Competition law

Risks for investors

- Corporate value would decrease and sustainable growth is threatened
- Reputational damage and loss of social license
- Fines and other sanctions by regulators
- Liability of board of directors over failure to fulfill their duty of care

"Greenwashing does not require intentionality"
– AIGCC and Client Earth

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MUFG pushing problematic ‘transition’ finance agenda in Southeast Asia

- MUFG has developed “Asia Transition Guidelines” through the Asia Transition Finance Study Group (ATFSG) which have drawn **criticism** from investors for reflecting Japanese energy policies and being **unsuitable for Southeast Asia.**

- MUFG spearheaded the development of the NZBA Transition Finance Guide which **blindly follows Japan’s Ministry of Economy, Trade and Industry** technology roadmap as one of the benchmarks for verification, despite **criticisms of its lack of scientific basis.**

- MUFG’s "Asia Transition White Paper", centering on power sector decarbonization, reiterates the use of ammonia co-firing and CCUS although these **‘technologies’ would prolong the use of fossil fuels**.

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SMBC claims support for fossil fuel based energy as 'transition finance'

Japan

Power Sector

- **Combined cycle gas fired power generation**
- **Hydrogen co-firing gas, coal power generation**
  At least 10% co-firing for gas and 20% co-firing for coal, limited to low emission hydrogen
- **Ammonia co-firing gas, coal power generation**
  At least 20% co-firing, limited to low emission ammonia
- **Biomass co-firing gas, coal power generation**
- **Nuclear power generation**
  Limited to Generation III+ and beyond
- **Thermal power generation with CCS**

Energy Sector

- **Gas exploration and production**
  Only when the offtake is in Japan
- **Gas storage and distribution**
- **Hydrogen / ammonia from nuclear power generation**

References: Japan's Transition Roadmaps, local policies

Asia

Power Sector

- **Combined cycle gas fired power generation**
  Only for peaking for some countries
- **Hydrogen co-firing gas, coal power generation**
  At least 10% co-firing for gas and 20% co-firing for coal, limited to low emission hydrogen with CCS
- **Ammonia co-firing gas, coal power generation**
  At least 20% co-firing, limited to low emission ammonia with CCS
- **Biomass co-firing gas, coal power generation**
- **Nuclear power generation**
  Limited to Generation III+ and beyond
- **Thermal power generation with CCS**

Energy Sector

- **Gas exploration and production**
  Only when the offtake is in specific countries
- **Gas storage and distribution**
- **Hydrogen / ammonia from nuclear power generation**

References: ASEAN Taxonomy, local taxonomies, local policies

North America

Power Sector

- **Combined cycle gas fired power generation**
  Only for peaking for specific countries
- **Hydrogen co-firing gas power generation**
  At least 10% co-firing for gas and 20% co-firing for coal, limited to low emission hydrogen with CCS
- **Ammonia co-firing gas power generation**
  At least 20% co-firing, limited to low emission ammonia with CCS
- **Biomass co-firing gas power generation**
- **Nuclear power generation**
  Limited to Generation III+ and beyond
- **Thermal power generation with CCS**

Energy Sector

- **Gas exploration and production**
  Only when the offtake is in specific countries
- **Hydrogen / ammonia from nuclear power generation**

References: Local taxonomies, local policies

EU 27 Countries

Power Sector

- **Combined cycle gas fired power generation**
  Must be aligned with EU Taxonomy
- **Hydrogen co-firing gas power generation**
  Must be aligned with EU Taxonomy
- **Ammonia co-firing gas power generation**
  Must be aligned with EU Taxonomy
- **Biomass co-firing gas power generation**
  Must be aligned with EU Taxonomy
- **Nuclear power generation**
  Must be aligned with EU Taxonomy

Energy Sector

- **Hydrogen / ammonia from nuclear power generation**
  Must be aligned with EU Taxonomy

References: EU taxonomy, local policies

SMBC's Transition Finance Playbook listed examples of transition activities (left) **which include expansionary fossil fuel projects** inconsistent with net-zero pathways.

Source: SMBC Transition Finance Playbook

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Although JERA does not have a credible transition plan, the banks are pouring money into the company

CASE STUDY

IEA NZE requirement	Electricity sector net-zero emissions by 2035 in advanced economies. No new fossil fuel supply.
Megabanks can still finance...	JERA, a company expanding fossil gas and prolonging the life of coal-fired power plants. JERA is: 1. The largest carbon emitter in Japan (global scope 1: 154 Mt-CO2 in FY2022) with no deadline to phase out coal and gas. Its emissions reduction target by 2035 is only a 60% reduction compared to 2013. 2. Actively pursuing significant expansion in the LNG sector, including LNG fields such as Barossa and Scarborough in Australia, Freeport LNG liquefaction facility in the US, five LNG import terminals and LNG to power projects with nameplate capacity of 11.6GW in Bangladesh and Vietnam. With its "Zero CO2 Emissions 2050" roadmap, JERA is planning to combust ammonia and hydrogen (including those produced with fossil fuels) – a costly, uncommercialised technology incompatible with the 1.5C goal, which has "risk of worsening [Japan's] long-term energy security". JERA is now part of Indonesia's energy transition masterplan project. MUFG, Mizuho and SMBC also supported JERA's so-called transition bonds - which have been criticised as failing to contribute to decarbonisation.

Find out more

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Megabanks need clear policies to incentivise their clients to decarbonise

Assessment by a third party to ensure these targets are science based

Requirements that clients' short, medium and long-term plans and targets, including scope 3 emissions, align with a 1.5 degree pathway

Clear consequences where a client does not meet requirements

Otherwise, Megabanks face financial risks associated with clients' failure to transition and the banks' own failure to meet their net-zero commitments.

Megabank boards must demonstrate competency to manage and oversee climate-related financial risks and opportunities

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Risks of not having climate-competent directors on board

- **Climate risk mismanagement -** Megabanks recognise climate-related risks as a "Top Risk" (Mizuho TCFD report 2023, p.6 , MUFG Sustainability report 2023, p.126,127, SMBC Group TCFD report 2023, p.59).
  - As such, the board must oversee climate risk management to safeguard corporate value. If the board lacks competency, the bank may be unable to properly manage climate-related financial risks, including decreased client performance and asset values, along with reputational and regulatory/legal risks.

- **Director liability -** "...Arguably directors could be held liable under the Companies Act and the Regulation for Enforcement of the Companies Act for failure to establish a climate risk management system with sufficient capabilities to perform their responsibilities to oversee and manage climate-related risks and opportunities." CCLI

- **Greenwashing -** "As one respondent told us, 'Boards have to learn in depth so as to avoid a simple tick mark in a checkbox or greenwashing the business.' Another also warned against 'window dressing.'"

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Japan’s legal frameworks <u>require</u> board climate competency

Japanese Corporate Governance Code (CGC):

- CGC Principle 4 requires the board to disclose: 1) the policies and procedures for director nomination; 2) the evaluation of board effectiveness; 3) board training policy, among others.
    - CGC Principle 4.11.1 sets out ‘***The board should establish policies and procedures for nominating directors and disclose them along with the combination of skills, etc. that each director possesses*** *in an appropriate form according to the business environment and business characteristics, etc.,* ***such as what is known as a "skills matrix."*** *When doing so, independent director(s) with management experience in other companies should be included.’*

Although megabanks have disclosed skills matrices, there is no description of each director’s competency with regard to climate change risk management, other than broad description of “sustainability” without any clear criteria used for the assessment (Mizuho, SMBC, MUFG).

Their corporate governance reports do not disclose sufficient information either, only including broad mentions of “expertise in sustainability” etc. (Mizuho, SMBC, MUFG).

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Megabanks fall short of investor expectations on board climate competencies

Initiatives	Indicators	MUFG	SMBC	Mizuho
TPI	8.2 a: The company discloses evidence of Board or Board committee oversight of the management of climate change risks.	✔ Met. Disclosure of discussion theme (p.70) at BoD etc.	✔ Met. Disclosure of discussion theme(p.49) at BoD etc.	✔ Met. Disclosure of discussion theme(p.14) at BoD etc.
TPI	8.2 b: The company has assessed its board competencies with respect to managing climate risks and discloses the results of the assessment.	✘ Failed. No evidence of assessment	✘ Failed. No evidence of assessment	✘ Failed. No evidence of assessment
TPI	8.2 c: The company provides details on the criteria it uses to assess its Board's competencies with respect to managing climate risks and opportunities, and the measures it is taking to enhance these competencies.	✘ Failed. Criteria not publicly disclosed	✘ Failed. Criteria not publicly disclosed	✘ Failed. Criteria not publicly disclosed
IGCC	"Climate competent" directors, i.e., has the expertise and experience of climate-related business threats and opportunities including climate science, low carbon transition across the value chain and public policy.	✘ Failed. No disclosure of expertise and experience in this regard in the MUFG skills matrix and CGR	✘ Failed. No disclosure of expertise and experience in this regard in the SMBC skills matrix and CGR	✘ Failed. No disclosure of expertise and experience in this regard in the Mizuho skills matrix and CGR

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Conclusion: Megabanks need enhanced climate risk management and transparency

- Megabanks assessments of clients' transition plans need more clarity and transparency. Otherwise investors cannot ensure the effectiveness of megabanks' decarbonisation strategies and associated financial risk management.

- Megabank boards' current skills matrices and relevant reports lack vital details, hindering investors' scrutiny of directors' ability to appropriately oversee climate-related risks and opportunities.

Votes for the following shareholder proposals are warranted:

- Assessment of client's credible transition plan
- Board ability to ensure banks manage climate related financial risks and opportunities

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Engagement timeline

2016 - PRESENT
Market Forces, Kiko Network and RAN (co-filers) engaged with MUFG, SMBC and Mizuho on fossil fuel financing and associated climate-related risk management

2020 MIZUHO AGM
Proposal on disclosure of Paris-aligned business strategy filed at Mizuho received strong support

2021 MUFG AGM
Proposal filed at MUFG on disclosure of Paris-aligned business strategy with short-, medium- and long-term targets received strong support

2022 SMBC AGM
Proposal filed to SMBC on Paris-aligned business strategy received strong support

2023 AGM
Proposals on disclosure of transition plans aligned with net zero emissions targets filed to **MUFG, SMBC and Mizuho** received strong support

SEPTEMBER 2023**
Discussion on the implications of the 2023 shareholder proposals on Japanese Megabanks, focusing on the enhancement of climate-related risk management strategies and the decarbonization targets, and engagements with clients

NOVEMBER 2023
Discussion and exchange opinions on the banks financing policy, decarbonisation targets, and client engagement on the high emitting sectors. Market Forces outlined areas to MUFG and SMBC where progress is needed

FEBRUARY 2024
Subsequent discussions to review progress of climate-related objectives and targets, and elucidate focus areas for updates in near term by Megabanks. Market Forces communicated need for progresses to Mizuho, and provided further clarification to MUFG and SMBC

MARCH 2024
Discussion and confirmation if banks have plans to update their policy and target based on previous communications and focus areas

APRIL 2024
Discussion and clarification on updates published by SMBC and MUFG

*Mizuho published the update post filing for 2024 AGM season

**Total online and in-person meetings with banks between September 2023 and April 2024: MUFG (5), SMBC (6), Mizuho (5)

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Amendment to the articles of incorporation is the only pathway

- The proposal to amend the company's articles of incorporation in part is the most commonly used approach to make shareholder proposals in Japan, and the approach taken in this proposal. The majority of the shareholder proposals filed in 2023 took this form.

- Under Japanese corporate law, the **sole legal pathway for a shareholder proposal on climate change** is via an amendment to a company's articles of incorporation.

- The legal effect of such shareholder proposals is the same as the "special resolutions" on climate change filed and passed at UK companies including Barclays, BP, Royal Dutch Shell, Rio Tinto and Anglo American, which take binding effect as part of the companies' constitutions.

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Proposal 1: Director competencies for the effective management of climate-related business risks and opportunities

The following clause shall be added to the Articles of Incorporation:

- **Chapter X:** "Directors and Board of Directors"
- **Clause Y:** Director Nomination (Director competencies for the effective management of climate-related business risks and opportunities)

To promote the long-term success of the Company, given the risks and opportunities associated with climate change, the Company shall establish and disclose policies and processes for nominating directors and evaluating the board's effectiveness that ensure the management of climate-related business risks and opportunities is embedded in the Company's core management strategy, noting the appropriate balance and diversity of knowledge, experience and skills of the board as a whole.

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Proposal 2: Assessment of customers' climate change transition plans

The following clause shall be added to the Articles of Incorporation:

- **Chapter Y:** "Climate-related risk management"
- **Clause Z:** Transition Plan (Assessment of clients' climate change transition plans)

Noting the Company's climate change commitments and climate risk management strategies, the Company shall disclose: **i)** How the Company will assess fossil fuel sector clients' climate change transition plans for credible alignment with the 1.5ºC goal of the Paris Agreement*; and **ii)**The consequences of clients not producing credible Paris-aligned transition plans, including the restriction of new finance**.

*Criteria for determining climate change transition plan credibility include, but are not limited to:

- Short-, medium-, and long-term scope 1, 2 and 3 emission reduction targets;
- Strategies (including capital expenditure plans) to align with those targets; and
- No unreasonable reliance on emissions offsets or negative emissions technology

**'New finance' defined as the provision of new corporate lending, project finance or trade finance to a client, including the refinancing of existing credit facilities, and the arranging or underwriting of capital markets transactions to a client.

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Annex 1: Examples of peers with better oil and gas policies

Project finance:

Lots of banks including OCBC, UOB, HSBC, BNP Paribas, Credit Agricole, Société Générale, ING, Commonwealth Bank, Westpac have instituted a policy to prohibit project financing for new oil and gas.

UOB: **No new project financing for upstream oil and gas** projects approved for development after 2022.

OCBC: '"We will not extend project financing to upstream Oil & Gas projects that obtained approval for development after 2021."

Corporate finance:

Danske Bank has decided not to offer long-term financing or refinancing to **E&P oil and gas companies that intend to expand supply of oil and gas** beyond what was approved for development by 31st of December 2021.

Westpac: Subject to national energy security, it will not provide project finance or bond facilitation for the development of new (greenfield) or expansionary oil and gas fields, including new associated dedicated infrastructure, unless in accordance with the IEA NZE scenario (2021). It will continue to provide corporate lending and bond facilitation where the customer has a credible transition plan(*) in place by 30 September 2025

(*) A credible transition plan(…)should include Scope 1, 2 and 3 emissions and actions the company will take to achieve GHG reductions aligned with pathways to net-zero by 2050, or sooner, consistent with 1.5°C warming.

Annex 2: Methodology for megabanks' client transition plan assessments under investor expectations

Criteria for assessing credible alignment with Paris

Frameworks such as the Climate Action 100+ Net Zero Company Benchmark and the Investor Group on Climate Change Corporate Climate Transition Plans Guide to Investor Expectations, amongst others, have identified common criteria that are essential to a credible transition plan. These key criteria are outlined below as part of Market Forces analysis on MUFG, SMBC and Mizuho's transition plan frameworks. These include, but are not limited to:

- Alignment with a 1.5°C pathway.
- Short, medium and long-term Scope 1, 2 and 3 greenhouse gas emissions reductions targets
- Capital expenditure allocation/alignment
- No unreasonable reliance on carbon offsets or negative emissions technology to achieve emissions reductions.

Another criteria is whether Megabanks will require transition plans from all fossil fuel companies by 1 January 2025. Another criteria refers to 'Verification/Frameworks'. This criteria refers to whether a bank has disclosed how it will conduct assessments of its clients transition plans, including whether the bank has used internationally recognised frameworks in defining requirements, and whether the bank will use an independent third party to verify the credibility of its client's transition plans.

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Annex 2: Summary of megabanks assessment under investor expectations is poor

NO COVERAGE | PARTIAL COVERAGE | FULL COVERAGE

Transition plan requirements	MUFG	SMBC	Mizuho	Better policy example: Westpac****
1.5C aligned	*	*	*	
Scope 1-3 targets	**	**	**	
Capex plans				
Short, medium, long term goals				
Reliance on offsets, etc.		***	***	
Verifications and frameworks				
Transition plan by 1 Jan 2025				

*MUFG mentions 1.5 aligned target and SMBC and Mizuho mention Paris-aligned targets in client transition plan assessments but they lack definitions. See MUFG Climate Report 2024 (JA p.58), SMBC TCFD report 2023 (EN p.68) and Mizuho TCFD report 2023 (EN p. 63).
** SMBC, Mizuho and MUFG all have portfolio reduction targets for scope 1, 2 and 3 in carbon intensive sectors, including oil and gas, coal etc, but do not clearly require clients to have such targets.
*** SMBC and Mizuho do not consider offsets when calculating portfolio GHG emissions. SMBC TCFD report EN p.94, Mizuho TCFD report EN p.83. Again there is no clear requirement that megabank clients' transition plans do not unreasonably rely on offsets etc.
**** According to 2023 policy update. Please refer to assessment by Market Forces for details.

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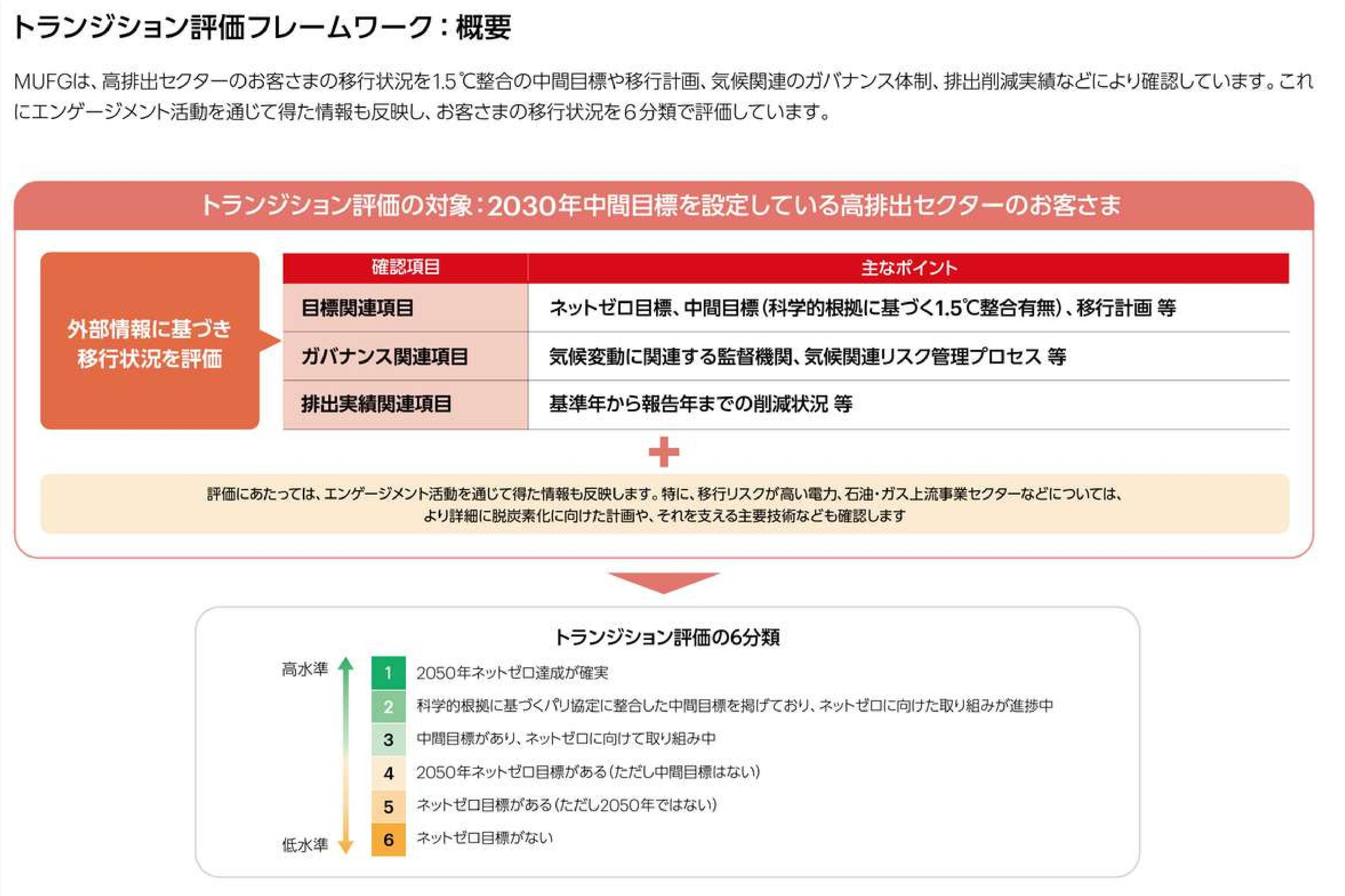
Annex 2: Megabanks client transition plan assessments lack clarity

In April 2024, MUFG disclosed a framework to evaluate client transitions including items related to targets (including "science-based 1.5C aligned interim targets"), governance, and emissions reduction status.

However, there is no clarity on criteria used to assess clients' **short, medium and long-term Scope 1, 2 and 3 GHG emissions reductions targets against science-based 1.5C pathways.**



Source: MUFG Climate Report 2024 p.53

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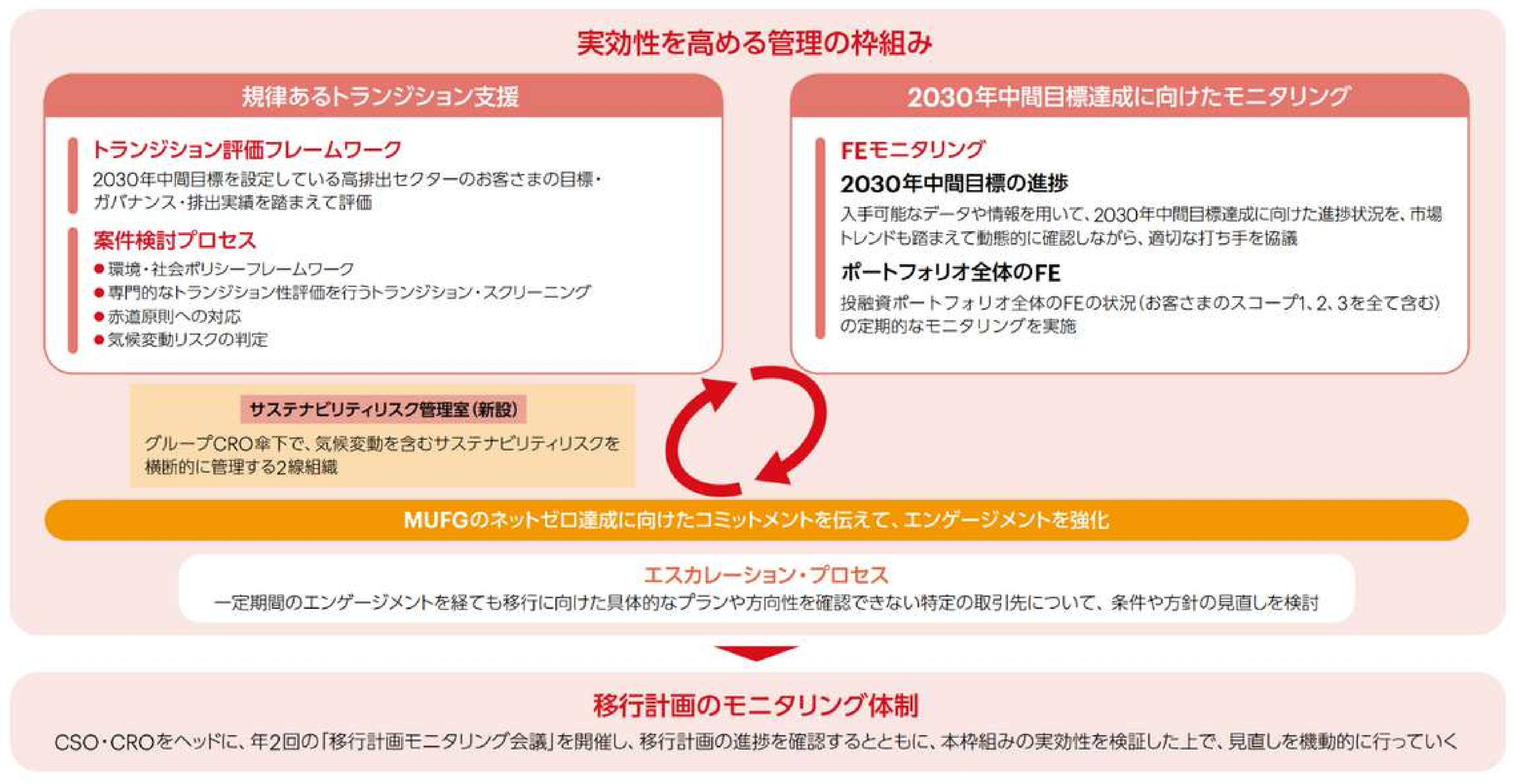
Annex 2: Megabanks client transition plan assessments lack clarity

Moreover, there is no clear consequences disclosed if clients fail to demonstrate credible transition strategies.

MUFG's "escalation process" only indicates MUFG considers reviewing the terms and policies for clients where no concrete plan or direction toward transition can be identified after a certain engagement period.



Source: MUFG Climate Report 2024 p.52

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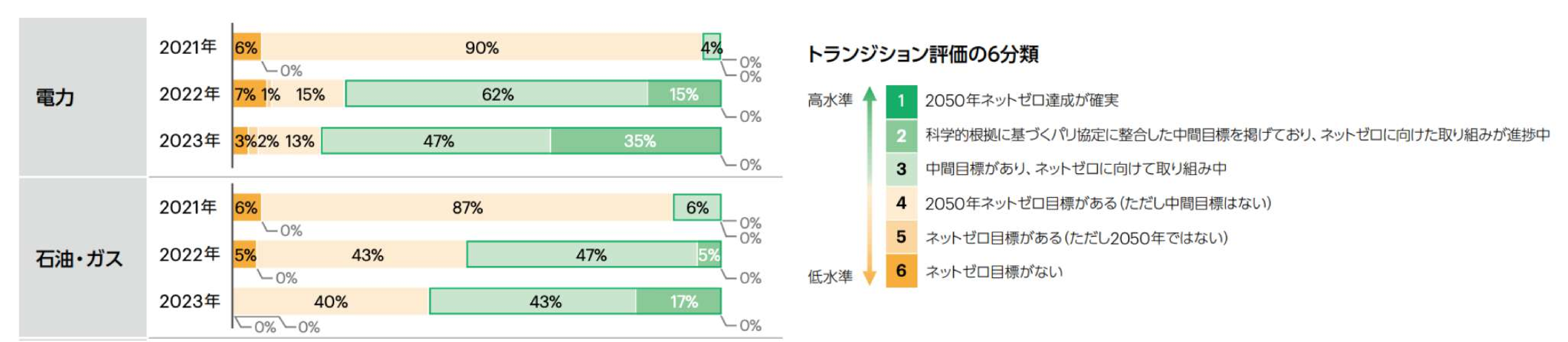
Annex 2: Megabanks client transition plan assessments lack clarity

It is not clear what **criteria** MUFG uses to assess if clients have science-based Paris-aligned interim targets and the progress is made toward net-zero (category 2 in the chart). Moreover, since disclosing ‘pilot framework’ for client transition engagement, MUFG provided USD **80 million in finance as part of USD 1475 syndicated loan to JERA Global Market, a subsidiary company of JERA, with plans to develop new LNG projects and expand LNG trading.**



Source: MUFG Climate Report 2024 p.54

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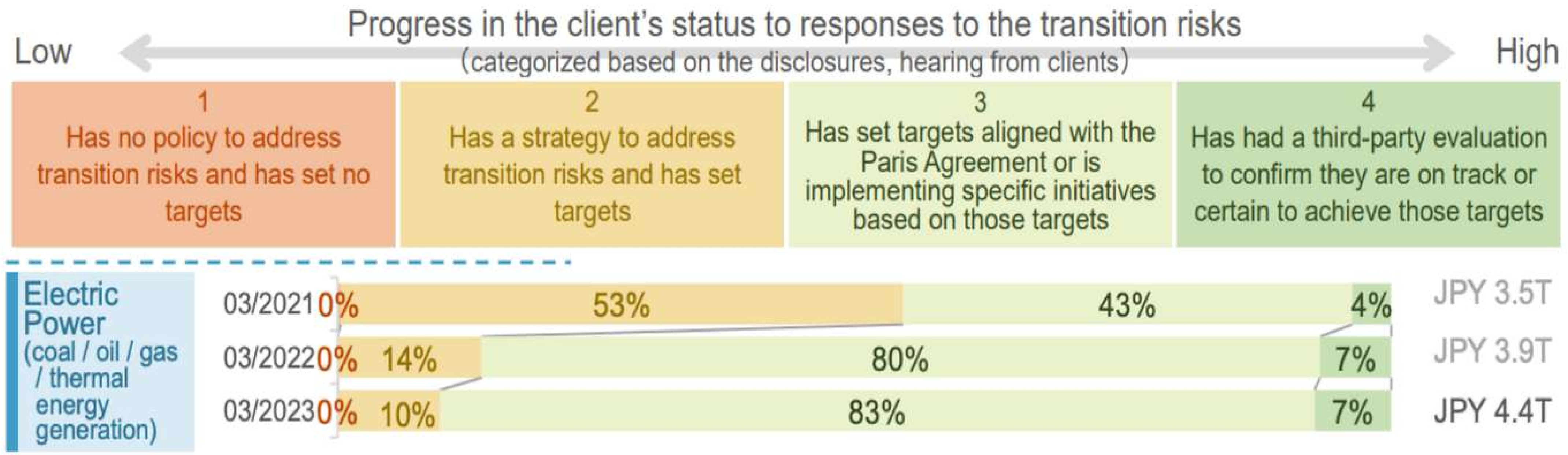
Annex 2: Megabanks client transition plan assessments lack clarity

Mizuho disclosed some criteria relating to clients' transition strategy progress. However, **no explanation is given** on what it means by "set targets aligned with the Paris Agreement" or "is implementing specific initiatives based on those targets", which Mizuho claims 83% of its power sector clients has done (exposure base).

Figure 28: Client progress on transition risk responses[29]



Source: Mizuho, TCFD report 2023 p. 63–65

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Annex 2: Megabanks client transition plan assessments lack clarity

Mizuho does not include Short, medium and long-term Scope 1, 2 and 3 greenhouse gas reduction target as key aspect of credible transition plans. It is **just one of the dialogue topics.**

Since disclosing these transition plan assessment details, Mizuho provided **USD 80 Million in finance** as part of USD 1475 million syndicate loan to **JERA Global Market**, a subsidiary company of JERA, **with plans to develop new LNG projects** and expand LNG trading.

Oil and gas sector engagement

■ **Main dialogue topics**

➢ **Mizuho's expectations and requests for responses to transition risk**

- Formulate transition strategies
- Set quantitative targets and KPIs (medium and long term) to increase the effectiveness of transition strategies
- Take specific initiatives and disclose progress
- Measure and disclose GHG emissions
- Enhance disclosures by following the TCFD or an equivalent framework

➢ **Initiatives to reduce GHG emissions / intensities**

- Actual GHG emissions
- Details of how medium-term reduction targets are set
- Take specific initiatives and disclose progress
- Take initiatives to reduce Scope 1, 2 and 3 emissions and to transform business structures
- Challenges faced by transition initiatives and expectations for Mizuho

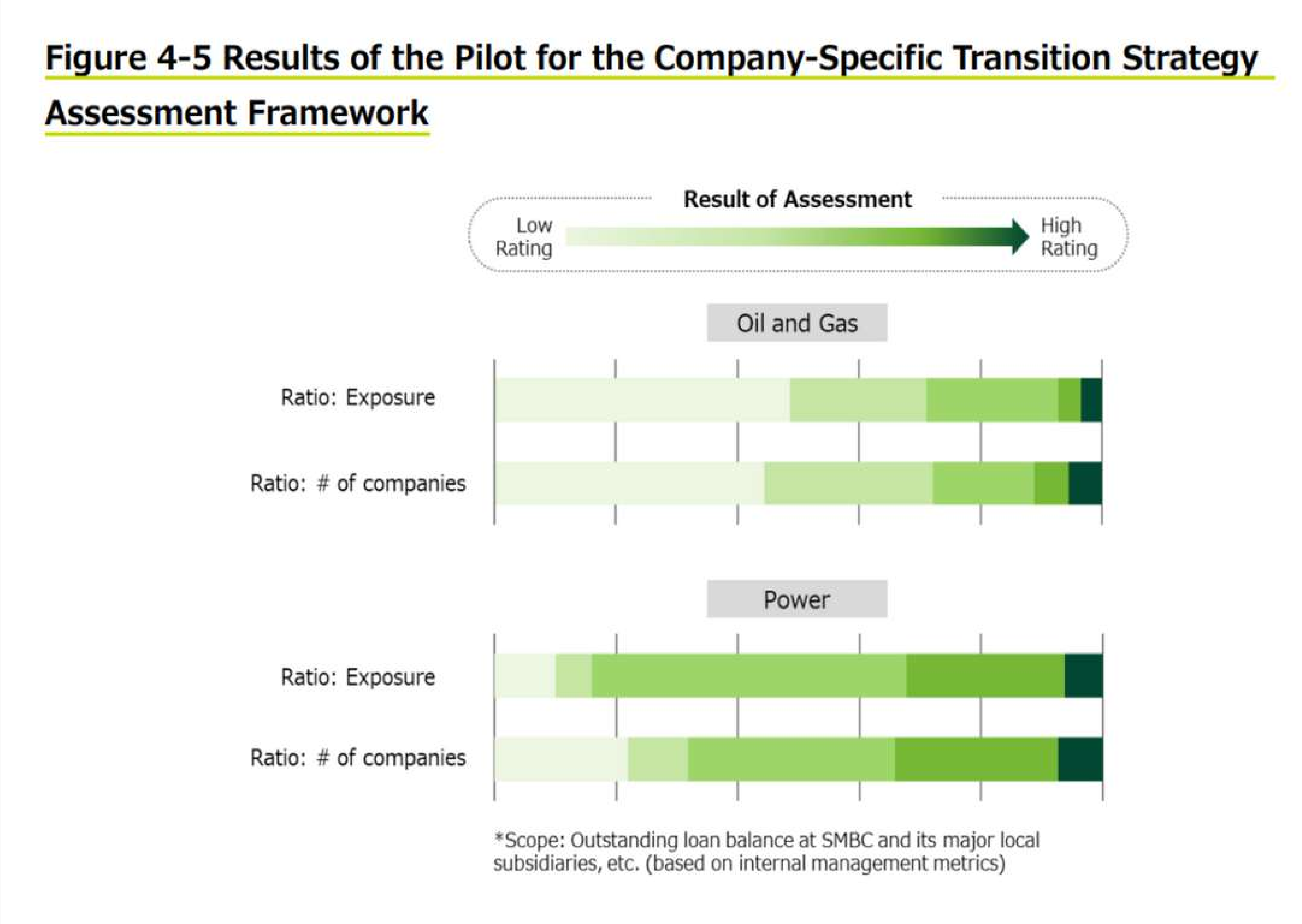
Source: Mizuho, TCFD report 2023 p. 41

Annex 2: Megabanks client transition plan assessments lack clarity

SMBC claims its pilot framework to verify clients' transition strategies assessed:

- "if clients has set goals in alignment with the Paris Agreement"
- "their governance structure"
- "their initiatives towards achieving these goals"

There is **no clarity on what criteria it uses** in this assessment.



Source: SMBC, TCFD report 2023 p. 64

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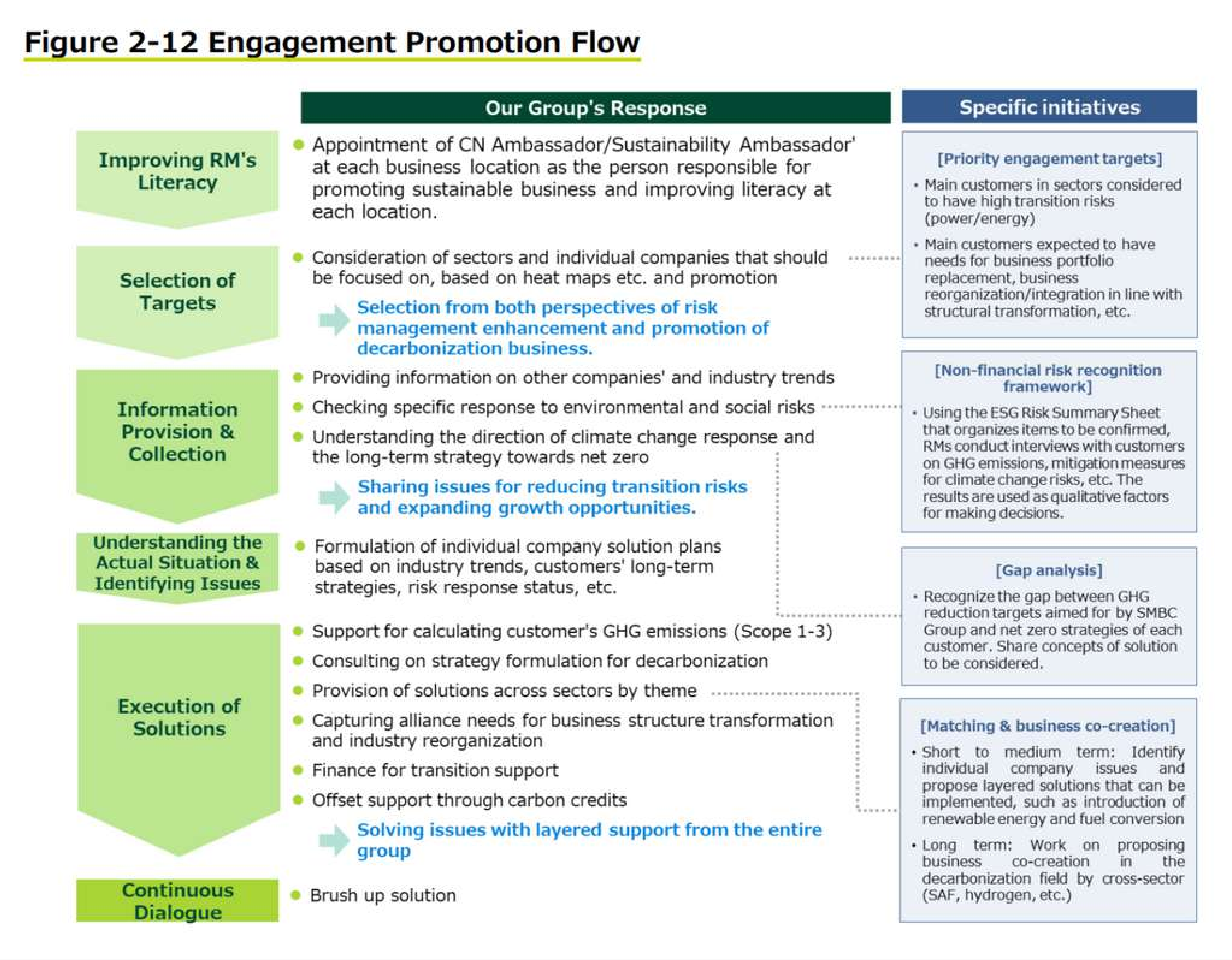
Annex 2: Megabanks client transition plan assessments lack clarity

SMBC does not require **short, medium and long-term Scope 1, 2 and 3 greenhouse gas reduction targets** as key aspects of credible transition plans.

It only “recognises the gap between SMBC's GHG reductions targets and the customers' net zero strategies and share concepts of solutions to be considered" as part of its engagement process.

Since disclosing these transition plan assessment details, **JPY 9 billion in bond underwriting for JERA with plans to develop new LNG projects** and expand LNG trading.



Source: SMBC, TCFD report 2023 p. 43

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Thank you for your attention

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