



Shareholder proposal briefing

# Oversight by audit committee/board

Mitsubishi UFJ Financial Group (TYO: 8306)  
Sumitomo Mitsui Financial Group (TYO: 8316)  
Mizuho Financial Group (TYO: 8411)  
Chubu Electric Power Co. (TYO: 9502)  
Mitsubishi Corporation (TYO: 8058)  
Mitsui & Co. (TYO: 8031)  
Sumitomo Corporation (TYO: 8053)

MAY 2025





# What should the audit and supervisory committees/boards be disclosing?

As noted in statements of the Boards of Directors of the Japanese megabanks, Chubu, Sumitomo, Mitsubishi and Mitsui, audit and supervisory committees/boards are **legally responsible** for ensuring directors properly monitor and mitigate material risks. These companies provide **insufficient disclosure to determine if and how the committees/boards meet this responsibility**.



## The proposal asks audit committees/boards to disclose and explain the criteria by which the Board of Directors assesses and supervises risk:

- ✓ Clear reasoning for the audit committee/board assessment that directors and/or executives are fulfilling their duties
- ✓ Defined criteria for assessing director monitoring of risk controls, including:
  - Directors' understanding of material risks, including climate competency
  - Director involvement in policy setting and management of compliance issues
  - Director evaluation of corporate strategy in relation to long-term commitments of the corporation



## This proposal does not seek:

- ✗ Discussion of a particular topic outside the material risks designated by the company; rather, the choice of the audit matters is at the discretion of the audit committee
- ✗ Disclosure of confidential details, but rather a high level assessment of general processes, assumptions underpinning alignment with corporate targets and broad considerations around policy setting or compliance



Greater transparency will mean investors can be certain that risks are being appropriately considered and managed, and that the audit committee/board is not just acting as a “rubber stamp” but rather providing the appropriate **checks and balances** intended by Japan’s Companies Act. This proposal also represents an opportunity for the audit committee members and directors to demonstrate how they are fulfilling their duties on behalf of shareholders.

# “Companies Act requires... a more specific description of the methods and contents of the audits actually conducted”

Contrary to claims from the Japanese megabanks, the Companies Act does not impede, and instead encourages, companies to disclose more detailed information regarding audit methods. The shareholder proposal asks for this expectation for more detailed disclosure be met when reporting on the audit of the performance of directors' duties, including risk management. Simply including in the audit report the "audit status", which companies have already described in "supplementary materials" or securities reports, would not be sufficient.

**The Japan Audit & Supervisory Board Members Association, in its Audit Committee Audit Report Templates ('hinagata'), clearly encourages that each company provides more specific descriptions of the methods and contents of actual auditing.**

Note 5 describes:

In regard to “1. Method and Contents of Audits,” please note that while a summary of the audit methods was required under the former Commercial Code, **the Companies Act requires not a summary, but rather a more specific description of the methods and contents of the audits actually conducted** (Article 131, paragraph (1), item (i) of the Ordinance for Enforcement of the Companies Act; Article 129, paragraph (1), item (i) of the Ordinance on Accounting of Companies). **It is expected that stating the specific methods and contents will lead to greater understanding by the users of the audit report.** In particular, in cases where there are audit items specific to the company for the period under review, such as if there is an audit item set as an important audit matter and given particular focus when conducting the audit (a priority audit item), it is preferable to make specific statements, such as “... determined by the audit committee, setting [TBD] as a priority audit item, and in cooperation with the internal control department of the company, the audit committee attended important meetings ...” (Source: Translation of Audit Committee Audit Report Templates)

# Examples of disclosures by audit functions

Carbon Tracker's report "Flying Blind: In a holding pattern" provides examples from external auditors of disclosures, demonstrating how oversight of directors' climate risk management duties could be disclosed by audit committee/board.

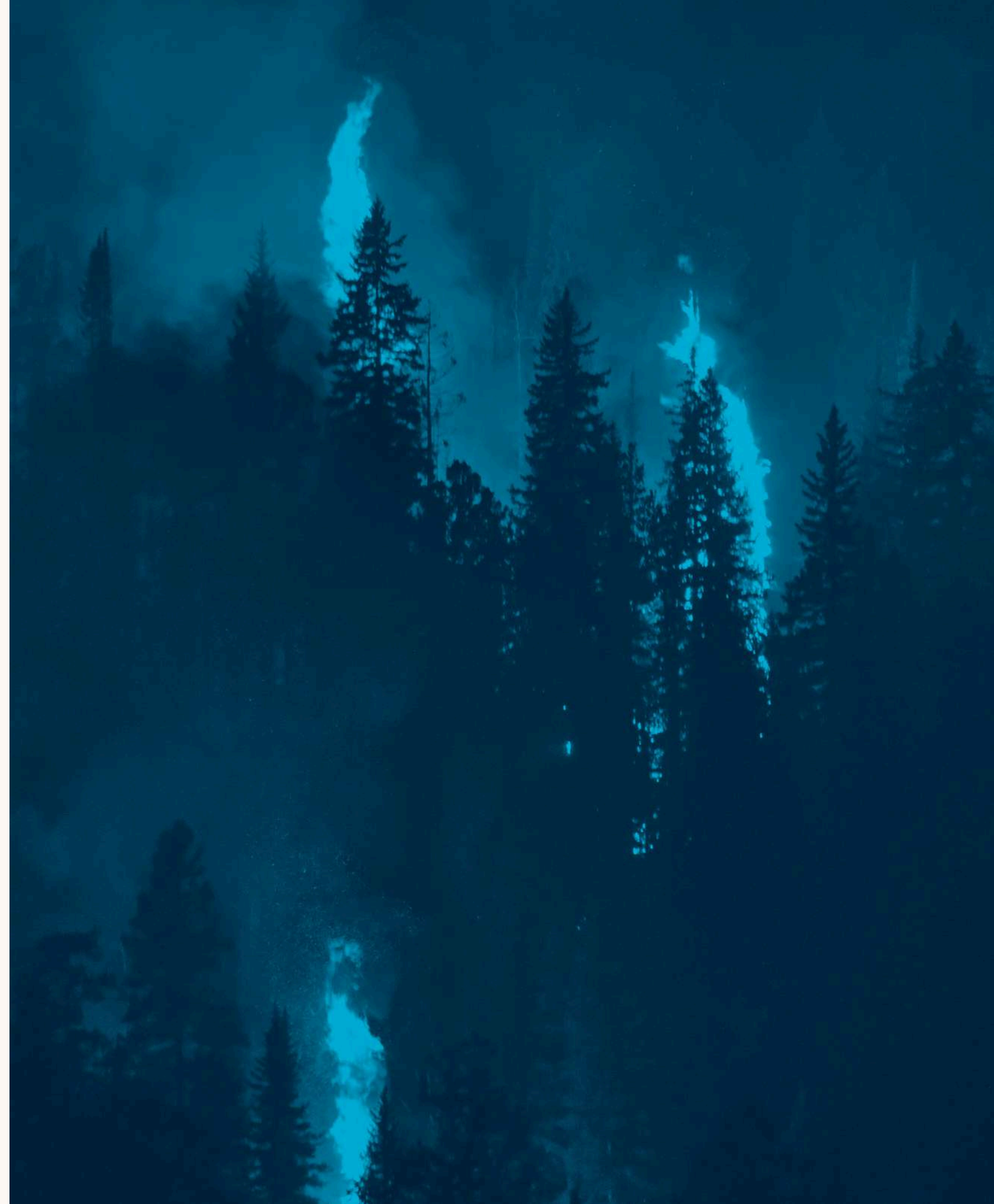
<u>Rio Tinto (2022)</u>	<p>Disclosed climate-specific section in audit report (p. 254-255), including general risk assessment procedures undertaken: "understanding the Group's actual capital expenditure in relation to its decarbonisation strategy compared to that planned", "discussed the Group's climate strategy, and considered potential material impacts to the financial statements" and considered impacts of climate change on indicators of asset impairment, including at specific projects.</p> <p>The report also stated that it considered "we read the disclosures related to climate change in the Directors' Report and Strategic Report, including the TCFD recommended disclosures, and considered its consistency with the financial statements and our audit knowledge."</p>
<u>Glencore (2022)</u>	<p>Disclosed climate-specific audit matter, which detailed assessments under specific headings, such as thermal coal pricing, carbon costs, useful lives of assets, rehabilitation provisions and consistency across reporting, providing the basis for the auditors' opinion. (Pg. 145 - 148)</p> <p>For example, under the heading "Consistency between Glencore's announced targets and accounting policies", the auditors included factors it considered, eg.: "We considered whether the Group's sensitivity and estimation uncertainty disclosures were appropriate in the context of climate change risks and uncertainties."</p>
<u>Eni (2022)</u>	<p>Disclosed factors to assess climate-related strategic alignment including "the reasonableness and accuracy of the costs the Group will incur to reach the reduction in net CO2 emissions in line with the decarbonization strategy in 2050, through interim targets by 2030 and 2040, set by the Group and reflected in the 2023-2026 Strategic Plan". With respect to hydrocarbon reserve valuations, the auditors "evaluated the technical expertise and objectivity of the Group's internal and external experts involved in the valuation process."</p>

# Example of possible disclosures in an audit report

The disclosure sought by the proposal could be as simple as a statement from the audit committee/board detailing how the issues the Board of Directors itself has recognised as risks have been addressed and why that approach was appropriate.

For example, Mizuho's 2024 Board of Directors Opinion, p. 57 stated: "Transition risks have been highlighted over the past few years; however, we should also pay attention anew to physical risks in light of the extreme weather conditions in recent years."

The Audit Committee report in that instance **should also describe and evaluate** the steps the directors took to understand and mitigate the risks and expand the opportunities, including improvement of knowledge regarding infrastructure damage, advice from external experts, assessing bank processes to engage with clients regarding climate transition plans to mitigate risks to credit portfolio, etc.



## Get in touch

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**Analysis featured in this briefing does not substitute analysis and disclosure from the companies themselves.** The purpose of the information featured here is to demonstrate to investors the substantial climate-risks the companies are exposed to, and encourages them to undertake their own detailed, forward-looking analysis to demonstrate to investors how they are managing these risks.