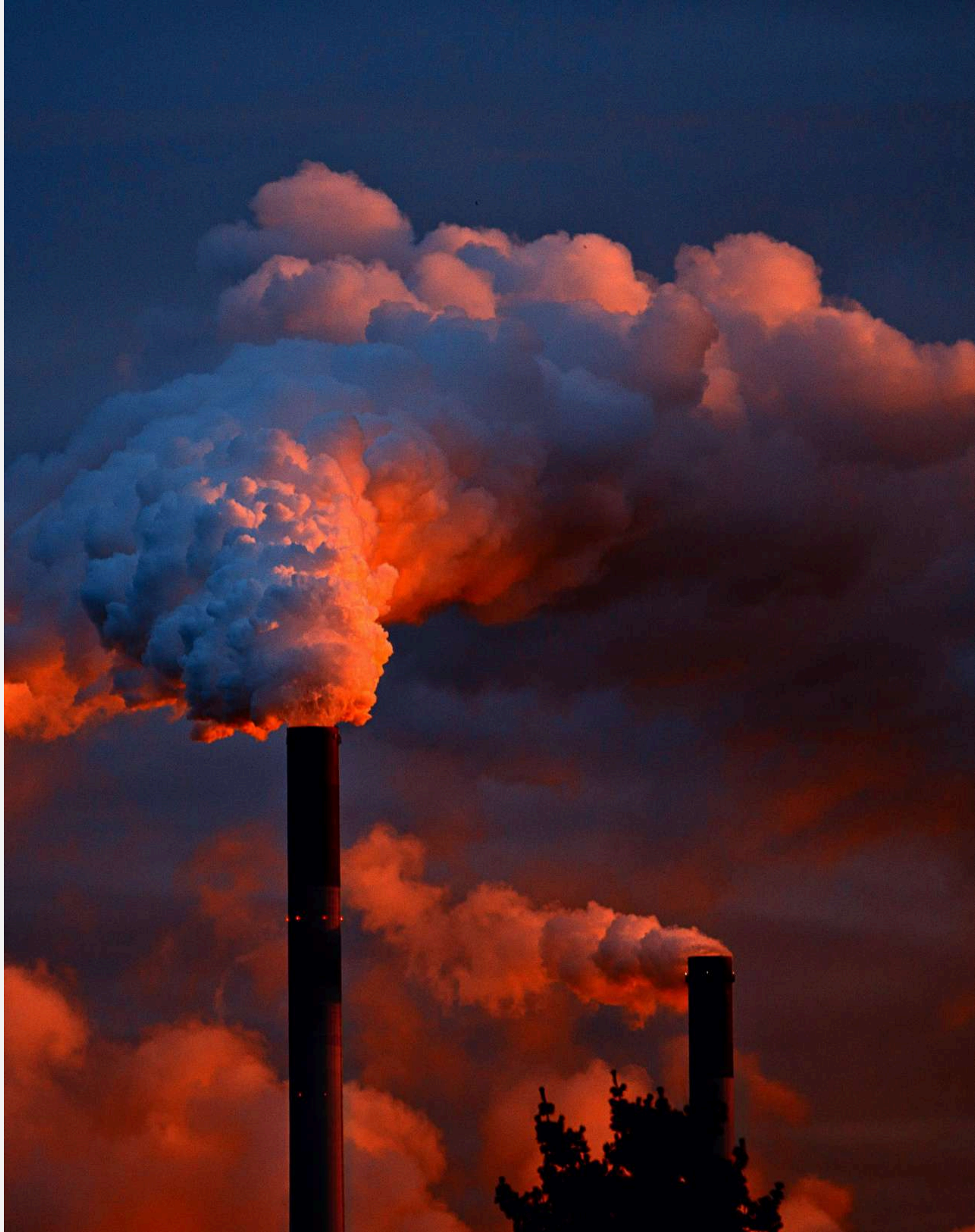
Investor update

Climate risk-focused shareholder proposals

Detail on director competency asks + updates from Japanese banks

Mitsubishi UFJ Financial Group Inc | TYO: 8306
Sumitomo Mitsui Financial Group Inc | TYO: 8316
Mizuho Financial Group Inc | TYO: 8411
Chubu Electric Power Co | TYO: 9502

MAY 2024



Disclaimer

Informational purposes only – This communication is provided solely for informational purposes only and is not, and should not be construed as, investment advice or investment recommendations for the purposes of the Financial Instrument Exchange Act of Japan.

No joint-exercise of voting rights – Nothing in this written communication, nor in any related oral discussion, is intended to be, nor should it be construed as, an offer, an acceptance or a consent, to enter into an agreement for the joint exercise of voting rights or any other shareholder' rights for the purposes of the Financial Instrument Exchange Act and Foreign Exchange and Foreign Trade Act of Japan. If needs be, it is hereby emphasised that each shareholder exercises its shareholder's rights independently based upon its own decision and shall not be held liable for its exercise of its shareholder's rights in any event or in any result, as a breach of any discussion between the shareholders.

No proxy solicitation – Nothing in this written communication, nor in any related oral discussion, is intended to be, nor should it be construed as, a "solicitation for proxies" for the purposes of the Financial Instrument Exchange Act of Japan. The shareholder is not soliciting or seeking any authorization by any other shareholders to exercise their voting rights or any other shareholders' rights on their behalf or as their agent at the annual shareholders' meeting. This is a non-commercial product for public dissemination only. Not for sale.

Chubu, MUFG, SMBC Group and Mizuho have noted climate-related risk as a key strategic risk

... but fail to disclose how their boards are assessed as competent to oversee the management of this risk.

MARKET FORCES

What does board climate competency require?

The board climate competency proposals seek disclosure of policies and processes for nominating directors and evaluating the board's effectiveness to assess the management of climate-related business risks and opportunities.

It is about disclosing board-level competency: It is unclear if the current boards of the companies in question have the capacity to consider climate science, supply chain-wide decarbonisation, 1.5-degree aligned public policies, etc. in a holistic and objective manner, and reflect these considerations in corporate decision-making, including transition planning.

It is not about having one director that has all the expertise: Relying on a single director to demonstrate climate competency runs the risk of having limited impact on an otherwise indifferent board. The example of Exxon's climate scientist board member is telling in this regard.

The proposal recognises the multiple risks a board has to assess in Japan, including a prosperous economy and stable power supply. However, noting the interconnected, compounding nature of these risks and climate-related risks, this proposal would ensure the appropriate management of all risks is more likely, rather than less.

MARKET FORCES

What does board climate competency require?

Board climate competency will soon be included in assurance requirements for climate-related reporting based on regulations in Japan, US and Europe. Some form of independent verification of climate competency will be required.

It is about disclosing what the board is doing:
Disclosure could include descriptions of multiple measures taken by the company to enhance climate competency, including scoping of the skills needed to assess the company's decarbonisation strategy, who and how the board is seeking to recruit, training on climate risk, and a published ongoing assessment of board competencies.

It is <u>not</u> merely disclosing that the board has "environment", "sustainability" or "ESG" skill, which would be insufficient to meet Climate Action 100+ criteria.

The proposal avoids being prescriptive, leaving it to the discretion of the companies <u>how</u> companies should ensure climate competency. It seeks disclosure of <u>what</u> the companies are doing, in line with investor guidance.

MARKET FORCES

What does board climate competency require?

The companies claim their approach is to have a system to access external expertise on climate change. However, access to external experts is insufficient to ensure board climate competency.

It is about whether the boards have the competency to absorb the views of external experts and utilise them in oversight of climate-related risk management appropriately.

It is not merely receiving advice from external experts in dealing with climate change.

Being able to assess board climate competency requires specific disclosure on the companies' criteria for such competency. The companies' disclosure at present is far too general. The companies do not disclose any criteria for – or results of – evaluation of board competencies for climate risk management. The proposal requests disclosure of policies and processes to ensure such evaluation is undertaken effectively.

MARKET FORCES

Other carbon intensive companies disclose more details...

MUFG, SMBC, Mizuho, Chubu fail to provide detailed descriptions of the criteria used to assess the board's climate competencies, and the climate-specific nature of board competency assessments.

CA 100+ Governance Indicators	TotalEnergies	SSE	BP	Origin Energy	Valero Energy	MUFG, SMBC, Mizuho, Chubu
8.1 a: The company discloses evidence of Board or Board committee oversight of the management of climate change risks.	✔	✔	✔	✔	✔	✔
8.3 a: The company has assessed its Board's competencies with respect to managing climate risks and opportunities and disclosed the results of this assessment	✔	✔	✔	✔	✔	✘ Failed. No evidence of assessment
8.3 b: The company provides details on the criteria it uses to assess the 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

MARKET FORCES

Chubu and the megabanks’ updates and board comments on the proposals have no bearing on the merit of the proposals

MARKET FORCES

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 and Mizuho mentions 1.5 aligned target and SMBC mention Paris-aligned targets in client transition plan assessments but they lack definitions. See MUFG Climate Report 2024 (JA p.58) and Mizuho Sustainability Progress 2024 (p.22).
**All three banks 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's Transition Finance Playbook 2.0 describes how the bank assesses power/oil and gas clients' transition strategies including alignment with 1.5°C pathways, investment plans, and scope 1 to 3 reduction targets when the bank provides transition finance(p.7, p.11). However, the bank can still provide regular finance (as opposed to 'transition finance') to these clients when the clients do not meet these criteria.
****SMBC and Mizuho do not consider offsets when calculating portfolio GHG emissions. SMBC TCFD report p.94, Mizuho TCFD report 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.

MARKET FORCES

The ‘escalation processes’ of the megabanks are insufficient

The frameworks offer vague consequences for clients failing to have transition plans and do not show a need for clients to have a credible, Paris-aligned transition plan in order to receive each bank’s support.

Bank	Decriptions of escalation processes
MUFG	‘MUFG has an escalation process to consider reviewing credit terms and conditions for clients who fail to demonstrate specific plans or directions for transition even after a certain period of engagement.’
SMBC	‘If we are unable to confirm that our customers are taking specific steps toward transition after a certain period of engagement, in conjunction with existing credit risk and other risk assessments, we will carefully consider whether to continue business relationships with them.’
Mizuho	‘We carefully consider whether to continue business with a client in the event that the client has not formulated a transition strategy even after a certain period of time after the first engagement.’
Westpac	‘We 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 be developed by reference to the best available science and should include scope 1, 2 and 3 emissions and actions the company will take to achieve greenhouse gas reductions aligned with pathways to net-zero by 2050, or sooner, consistent with a maximum temperature rise of 1.5°C above pre-industrial levels by 2100

MARKET FORCES

The world’s top 12 fossil fuel financiers in 2023

All megabanks climbed up fossil fuel financing rankings in 2023

revealing megabanks’ failure to manage transition risks…

Rank	Bank	Country	2023 Financing Commitments (USD millions)
1	JPMorgan Chase		$40.88 BILLION
2	Mizuho Financial		$37.04 BILLION
3	Bank of America		$33.68 BILLION
4	MUFG		$33.25 BILLION
5	Wells Fargo		$30.38 BILLION
6	Citigroup		$30.27 BILLION
7	RBC		$28.23 BILLION
8	SMBC		$26.78 BILLION
9	Barclays		$24.22 BILLION
10	ScotiaBank		$24.02 BILLION
11	Toronto-Dominion Bank		$20.36 BILLION
12	Morgan Stanley		$19.11 BILLION

出典：Banking On Climate Chaos 2024

MARKET FORCES

Megabanks need clear policies to incentivise their clients to decarbonise

Assessment by a third party to ensure clients' 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

Without these requirements, the megabanks face increasing financial risks associated with clients' failure to transition and the banks' own failure to meet their net-zero commitments.

MARKET FORCES

Conclusion: Chubu, MUFG, SMBC Group and Mizuho need enhanced climate risk management and transparency

Votes for the following shareholder proposals are warranted:

- Assessment of clients’ climate change transition plans
- Director competencies for the effective management of climate-related business risks and opportunities

MARKET FORCES

Thank you for your attention

ASIA SHAREHOLDER ACTION
HTTPS://SHAREHOLDERACTION.ASIA/

MARKET FORCES