Shareholder proposal briefing

Disclosure to manage Megabanks' financial and climate risks

Mitsubishi UFJ Financial Group
Sumitomo Mitsui Financial Group
Mizuho Financial Group

APRIL 2025

Give us your feedback

Summary and key recommendations

Megabanks are exposed to financial risks through inadequate scrutiny of fossil fuel clients and unreliable governance mechanisms

Currently more exposed than many of their peers but do not have adequate policies and other risk controls

Megabanks must manage these risks by setting clear requirements for their clients' transition plans

Investors must ensure Megabanks set timelines for requiring credible, 1.5 degree-aligned transition plans from all fossil fuel customers and defined consequences where the expectations are not met

Megabanks have failed to heed investors' calls for further disclosure on client transition plan assessments

Ignoring significant votes can lead to escalating investor pressure, especially considering the increasing climate-related financial risk exposures facing the Megabanks and their investors

Given the systemic issues facing megabanks, the audit functions of the board of directors must be effective

Megabanks' Audit Committees are responsible for ensuring the directors are performing their duties. These committees must disclose **a basis of audit outcomes** covering how directors are monitoring the controls, including but not limited to climate risk

market forces

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.

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.

market forces

Megabanks’ fossil fuel exposures present significant financial risk

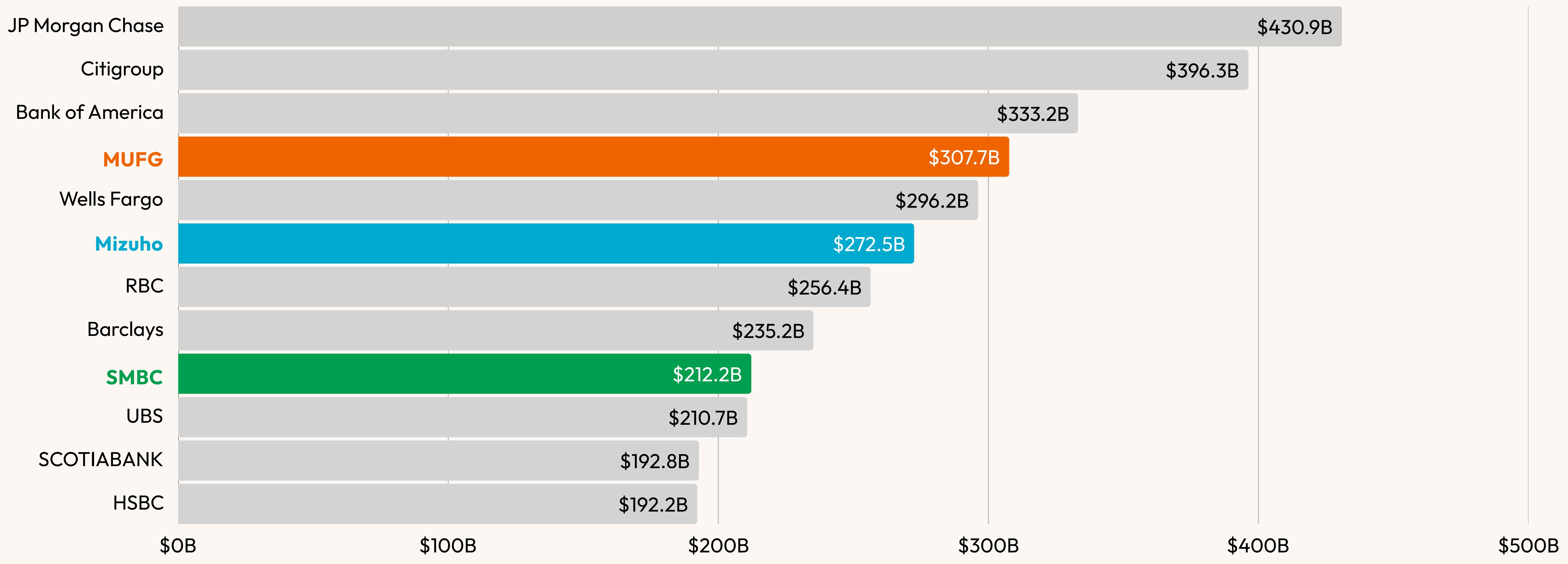
Fossil fuel exposure increases climate-related financial risks, leading to systemic risk

Risk type	
Default risk	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. Financial experts have recently questioned the megabanks' ability to detect accounting fraud on the part of Japanese companies.
Reputational risk	The megabanks are not meeting global investor or market expectations, lagging behind international peer banks, and losing social license among communities in host countries (e.g. complaints filed against the megabanks by Australia's Tiwi Islands Traditional Owners in relation to the banks' financing of oil and gas company Santos). Reputational damage could lead to losing business competitiveness, including not being able to attract prospective investors, customers, and employees.
Legal or regulatory risk	If the megabanks fail to meet their own climate commitments to net zero emissions by 2050 because they continue to finance fossil fuel expansion, they are at risk of legal or regulatory greenwashing claims such as misleading or negligent statements, market disclosure regulation, advertising codes and breach of contract. Short-term policy shifts (for example over the next 4 years in the US) followed by future swings towards decarbonisation risk stranding long-term investments.
Physical risk	The megabanks are exposed to potential credit losses from extreme weather such as typhoons, wildfires and floods, as well as other physical risks including rising temperatures and sea levels. Megabanks' scenario analyses do not fully reflect these risks.
Macroeconomic risk	According to recent scenarios by financial regulators, Japan's GDP could suffer approx. JPY 952 trillion (USD 9.2 trillion) between now and 2050 under current global targets by governments (NDCs). In contrast a Net Zero scenario would bring positive impacts to Japan's GDP, amounting to US$130 billion per annum by 2050.

market forces

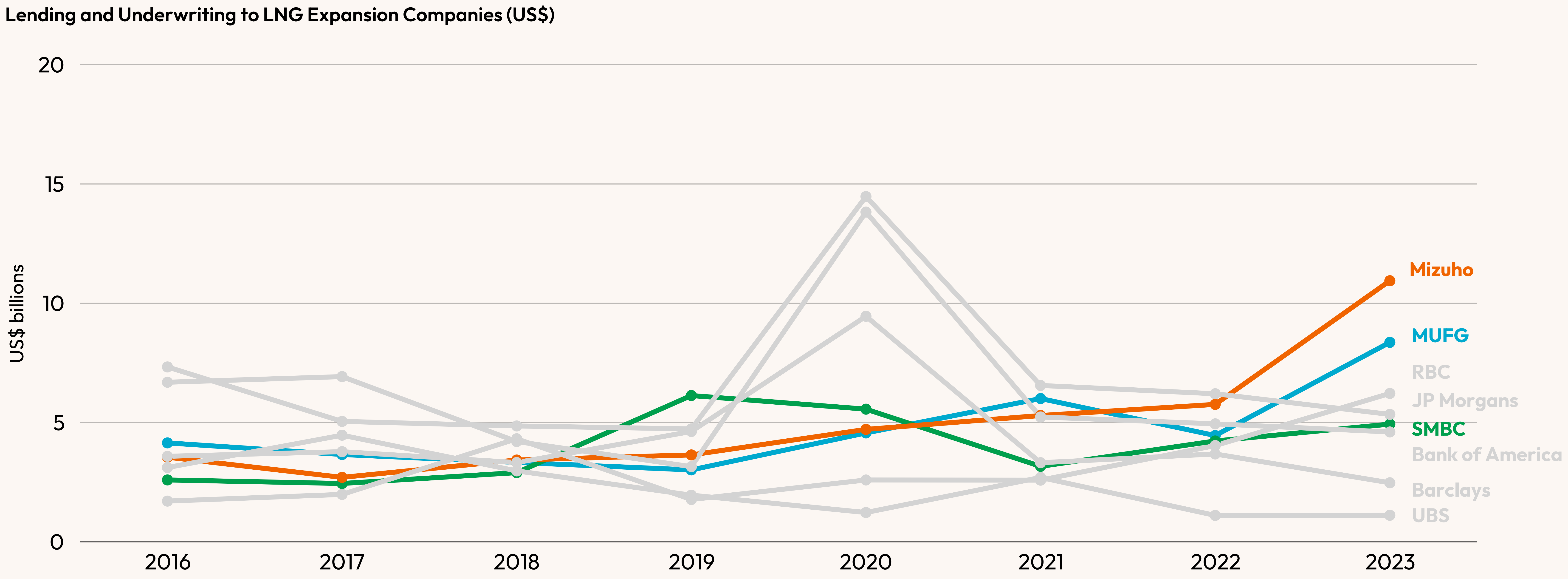
Megabanks highly exposed to fossil fuel sector, pouring in USD$792B

'Dirty Dozen' largest financiers of fossil fuels since Paris Agreement (2016-2023)



Source: Banking On Climate Chaos 2024

Megabanks' LNG expansion finance has ballooned

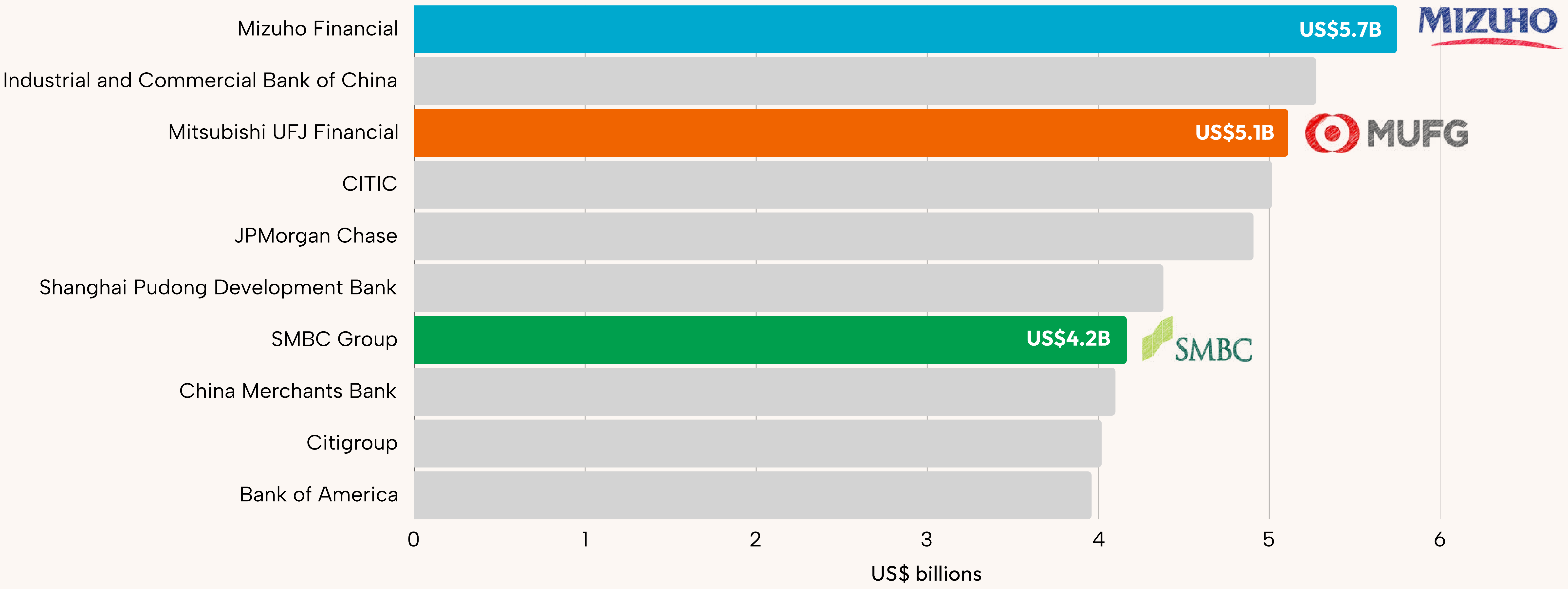


Source: Banking On Climate Chaos 2024

market forces

Megabanks highly exposed to new gas power

Lending and Underwriting to Gas Power Expansion Companies (2023)



Source: [Banking On Climate Chaos 2024]

Ineffective climate risk management policies

	Megabanks comparison	
	Current policy	Policy improvement required
Oil and gas fields (upstream)	Not aligned	Commit not to provide finance to new or expanded oil and gas fields.
LNG infrastructure	Not aligned	Commit not to provide finance for LNG infrastructure including LNG import and export terminals.
Gas power (downstream)	Not aligned	Commit not to provide finance to gas power expansion.
Thermal coal (corporate)	Partially aligned	Commit not to provide finance to companies that are expanding the thermal coal mining sector.
Metallurgical coal	Not aligned	Commit not to provide project finance to new or expanded metallurgical coal mines, including extensions of existing mines.
Credible transition plan requirements	Not aligned	Commit to no longer providing new finance to fossil fuel companies without a credible climate transition plan.

1.5C aligned   Not aligned   Partially aligned

For more details please refer to our previous briefing.

Megabanks must set clear expectations of clients' transition plans or face increasing risk

Investors are looking for banks to set clear climate transition plan expectations for their clients to decarbonise the real economy

Investor-led transition plan frameworks set **clear guidelines** for corporate net zero alignment.

Investor Group on Climate Change	"Investors expect to understand companies' plans to pivot their existing assets, operations, and entire business model to align with a 2050 net-zero trajectory and limit global temperatures to 1.5°C."
Transition Pathway Initiative	An essential part of any bank's decarbonisation strategy is to set and disclose "explicit criteria for withdrawal of financing from misaligned fossil fuel activities" including companies engaged in coal, oil and gas expansion.
SCIENCE BASED TARGETS	"[Finanical Institutions] should develop an engagement strategy to achieve alignment of their portfolio companies' business models with the Paris Agreement— through the adoption and publication of time-bound 1.5°C transition plans."

Climate transition plan expectations would **enable banks to meet their climate commitments, but only if they are credible.**

market forces

Credible climate transition plan requirements from investor groups

In order to meet their commitments to achieving net-zero emissions by 2050 and managing financial risks associated with high-emitting clients, banks must:

Implement and disclose a **credible** framework for assessing the Paris-alignment of all fossil fuel clients' transition plans based on international best practice, assessing and expecting:

- 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 and alignment.
- No unreasonable reliance on carbon offsets or negative emissions technology to achieve emissions reductions.

Set a clear expectation for **the timeline** in which fossil fuel clients must produce credible transition plans to incentivise their transition away from fossil fuels; and

To ensure effectiveness of engagement with fossil fuel clients and accelerate a managed-portfolio phase-down, commit to cease providing new or renewed finance to any fossil fuel company **without a credible, Paris-aligned Climate Transition Plan (CTP)** by a set timeline.

market forces

Megabanks' inadequate approach to transition plan assessments

Megabanks' approach fails to assess clients' alignment with the Paris Agreement, and is highly unlikely to result in the banks denying finance to companies with large-scale fossil fuel expansion plans. Their latest disclosures relating to CTP expectations **lack critical detail in three key areas:**

DO NOT REQUIRE THEIR CLIENTS TO HAVE CREDIBLE TRANSITION PLANS
Megabanks only list **examples of** items they assess in their clients' transition plans, and **none of them are requirements**.
MUFG and Mizuho categorised their power, oil and gas, and other high-emitting sector clients into different levels including "certain to achieve or has Paris-aligned targets" but it is unclear what it means by "Paris-aligned". Also, even if the clients don't achieve those levels, they can still receive financial support from banks.

NO CLEAR TIMELINE
Megabanks have not set a deadline for their clients to have a credible transition plan.

UNCLEAR IMPACT ON FINANCING DECISIONS
Unlike international peer banks, Megabanks have not committed to halting new/renewed finance to fossil fuel companies without a Paris-aligned transition plan by a certain deadline despite their high exposure to the sector.

Megabanks **fail to pass** the TPI's assessment on the following relevant criteria:

FINANCING CONDITIONS AND REVENUE ALIGNMENT, DECARBONISATION STRATEGY
Has the bank disclosed actions taken to ensure that financing conditions and/or covenants are enforced (e.g., developing watch list, suspending loan disbursement, risk-weighted pricing incentives)? (conditional on 5.1.1.a)

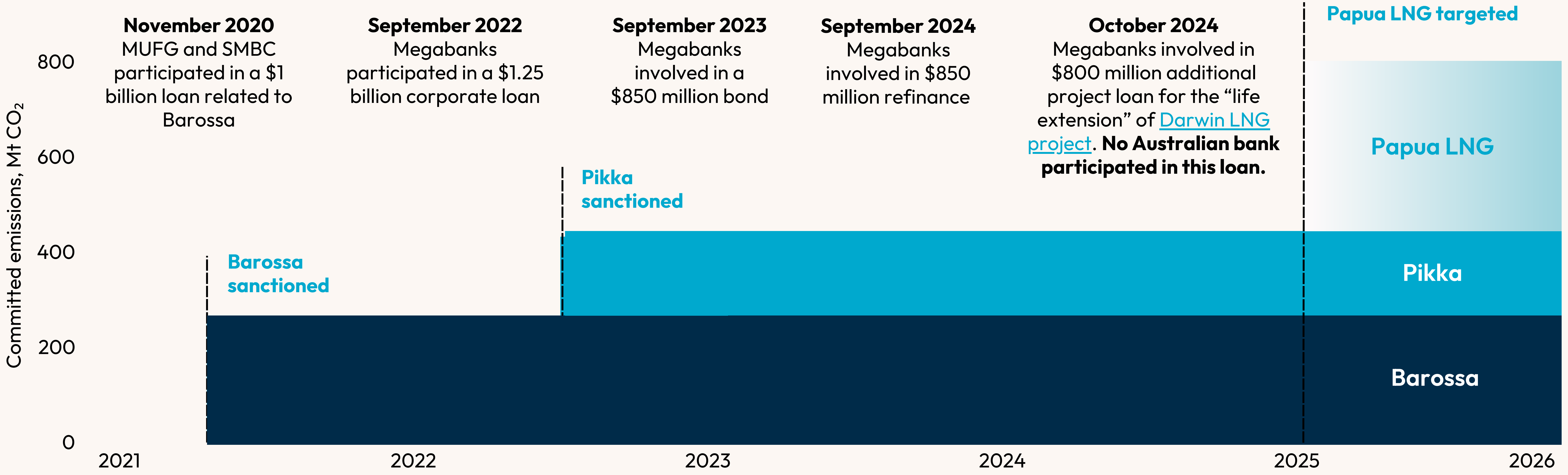
Megabanks lagging peers

International peers have clearly defined CTP approaches that are significantly ahead of MUFG, Mizuho and SMBC.	
Commonwealth Bank	Australia's Commonwealth Bank announced in August, 2024 that it had already made the decision to **no longer finance oil and gas, metallurgical coal mining, or coal-fired power generation customers that lack transition plans aligned with the Paris Agreement.** **After announcing this policy, Commonwealth Bank did not participate in a refinancing deal for Australian oil and gas company, Santos. By contrast, the Megabanks all renewed lending to Santos.**
NatWest	The 40th largest bank in the world by total assets has disclosed how it will assess its clients' transition plans for alignment with Paris, has undertaken such assessments for portions of its coal, oil and gas portfolios, and **committed to stop lending and underwriting to customers without Paris-aligned CTPs 'as soon as practicable'.**
Crédit Mutuel	The 30th largest bank in the world by total assets, has stated it **will not finance any oil and gas company without a planned year-on-year reduction in production.**
La Banque Postale	The 45th largest bank in the world by total assets has stated that it will **only fund coal, oil and gas companies if they have a public strategy for exiting these sectors in line with scientific recommendations.**
Danske Bank	Has clearly stated that **a company must have committed to not expanding the supply of oil and gas "beyond that which was approved for development by 31 December 2021" to be considered to be 'in transition'.**

market forces

Example of Megabanks supporting companies without credible transition plan: Santos

By continuing to provide or arrange finance for Santos, the banks are actively fuelling a capital-intensive oil and gas expansion strategy that is completely incompatible with their own climate commitments. Once sanctioned and initially financed, these projects are effectively locked in and can emit for decades to come, regardless of banks' lending exposure decreasing as loans are repaid.



Committed emissions = lifetime combusted emissions of sold product.

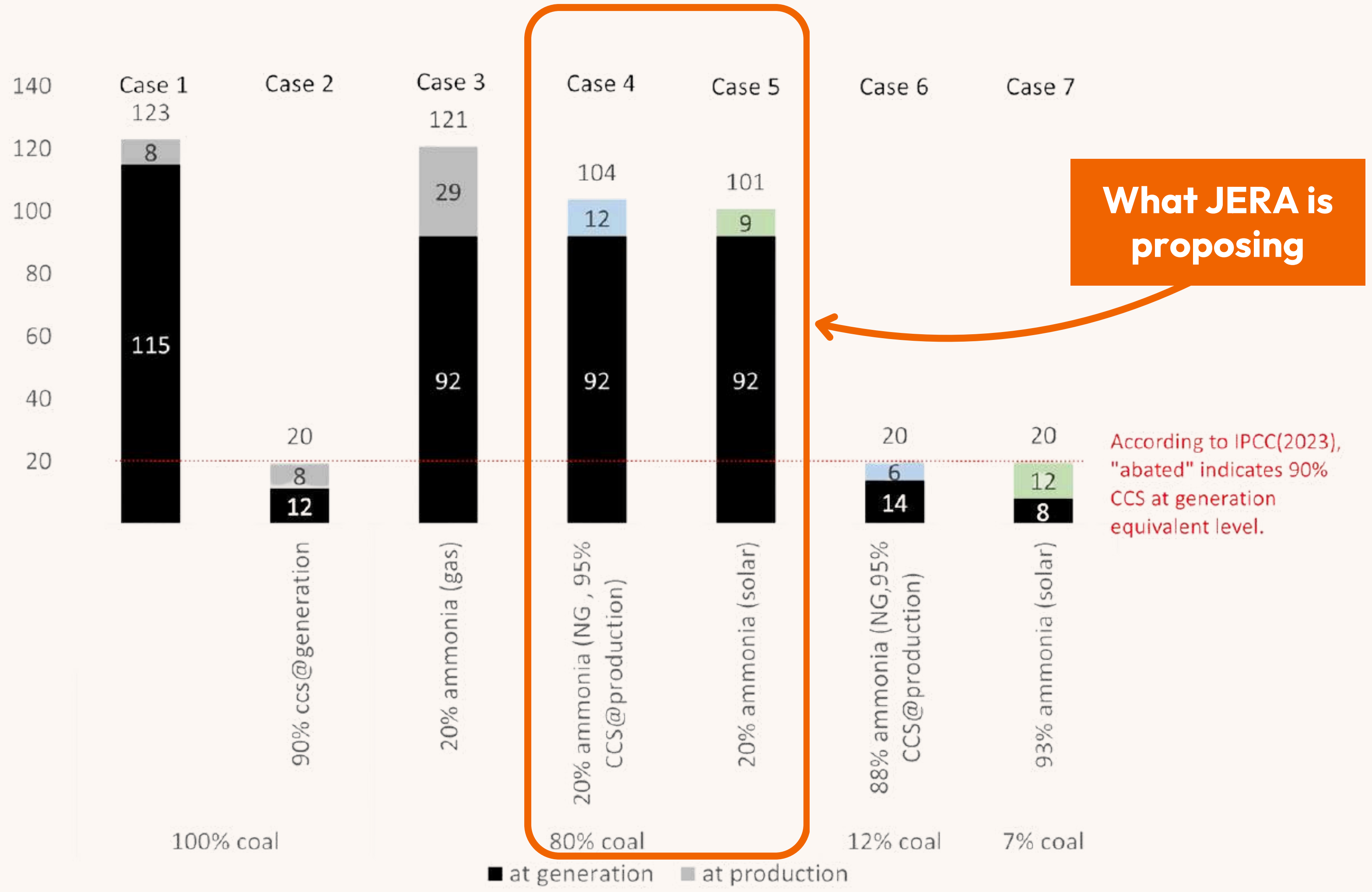
Example of Megabanks supporting companies without credible transition plan: JERA

JERA is expanding fossil gas and prolonging the life of coal-fired power plants.

- JERA is the largest carbon emitter in Japan (159 MtCO2 in FY2023) with no deadline to phase out coal and gas. Its emissions reduction target for its **Japanese operation is only a 60% reduction from 2013-2035, when total decarbonisation is needed**, when advanced economy power sectors must reach net zero emissions in a 1.5-aligned pathway**.**

- According to S&P Global, utilities (including power generation) are the most exposed and vulnerable to physical climate impacts, including from sea level rise and drought. As a utility company, JERA faces significant **physical risk** to its assets in a world where warming is above 1.5 degrees. JERA has no clear management plan for this risk. **The absence of a plan presents a potential credit risk to the Megabanks financing of JERA.**

Comparison of lifecycle emissions from coal-fired power plants and various type of co-firing with various ammonia [unit: gCO2-eq/MJ(LHV)]



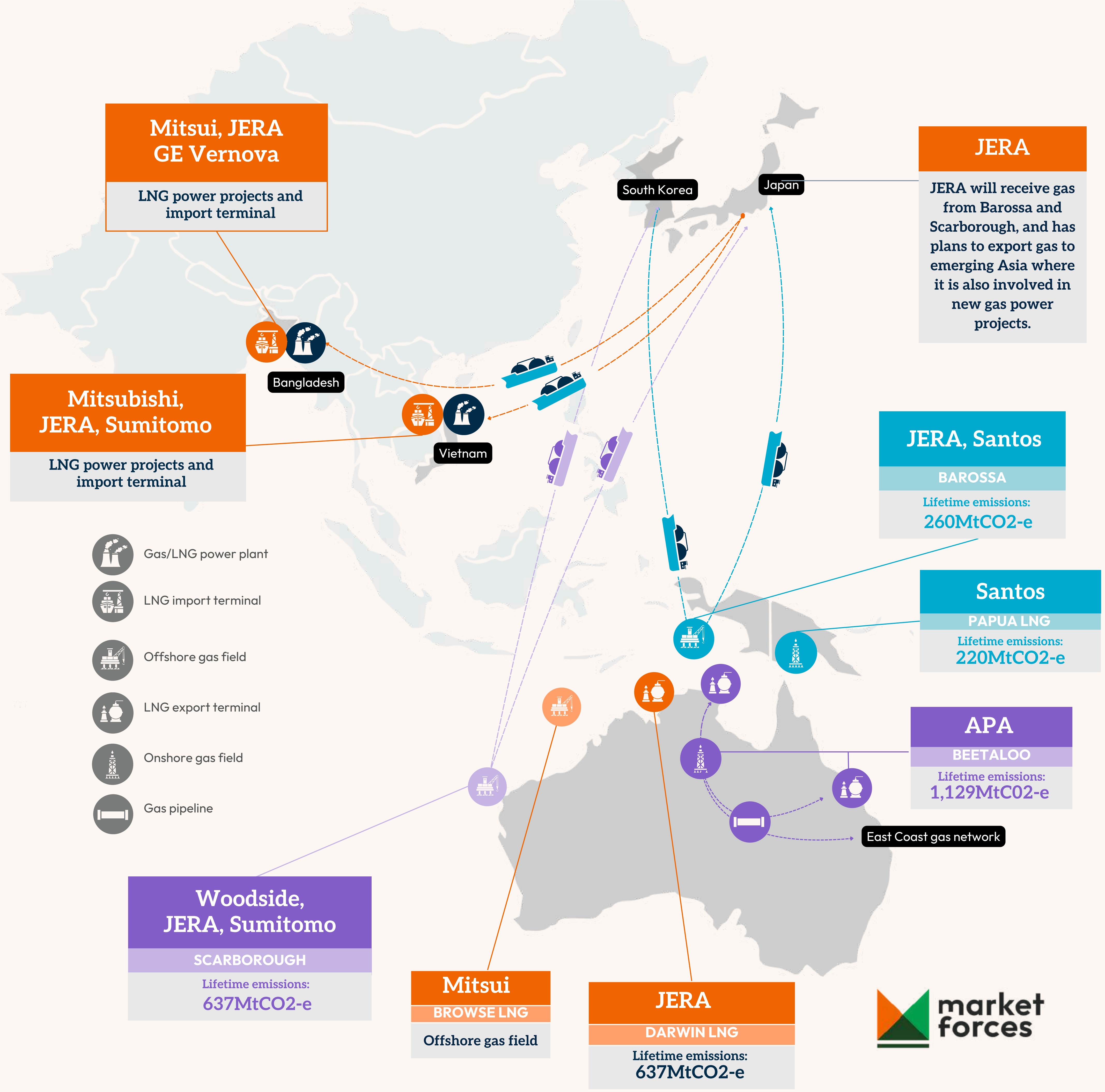
Source: Renewable Energy Institute

Megabanks’ clients pushing gas dependency, increasing emissions and sovereign risk

Megabanks are financing companies actively trying to delay the renewable energy transition in Asia and lock countries like Bangladesh into dependency on expensive and polluting gas.

Asia is being aggressively pursued as a growth market for gas power projects and infrastructure; 63% of the world’s proposed new gas power is in Asia.

Policy changes by countries seeking to avoid volatile and expensive LNG markets and increase energy security present sovereign risks for gas infrastructure developers and their financiers.



Megabank clients face stranded asset risk where policies change

Bangladesh: At the outset of 2024, there were massive 41 new LNG power plants planned to be built in Bangladesh alone, with Megabanks' clients, JERA and Mitsubishi heavily involved.

With the collapse of the Awami League government in July 2024, the interim government has tasked a commission with reviewing these projects, with **costs considerations being a significant driver.** Bangladesh also faces rolling blackouts, unable to afford LNG on **spot market prices.**

Pushing costly LNG projects on emerging economies can lead to **stranded asset and sovereign risk.**

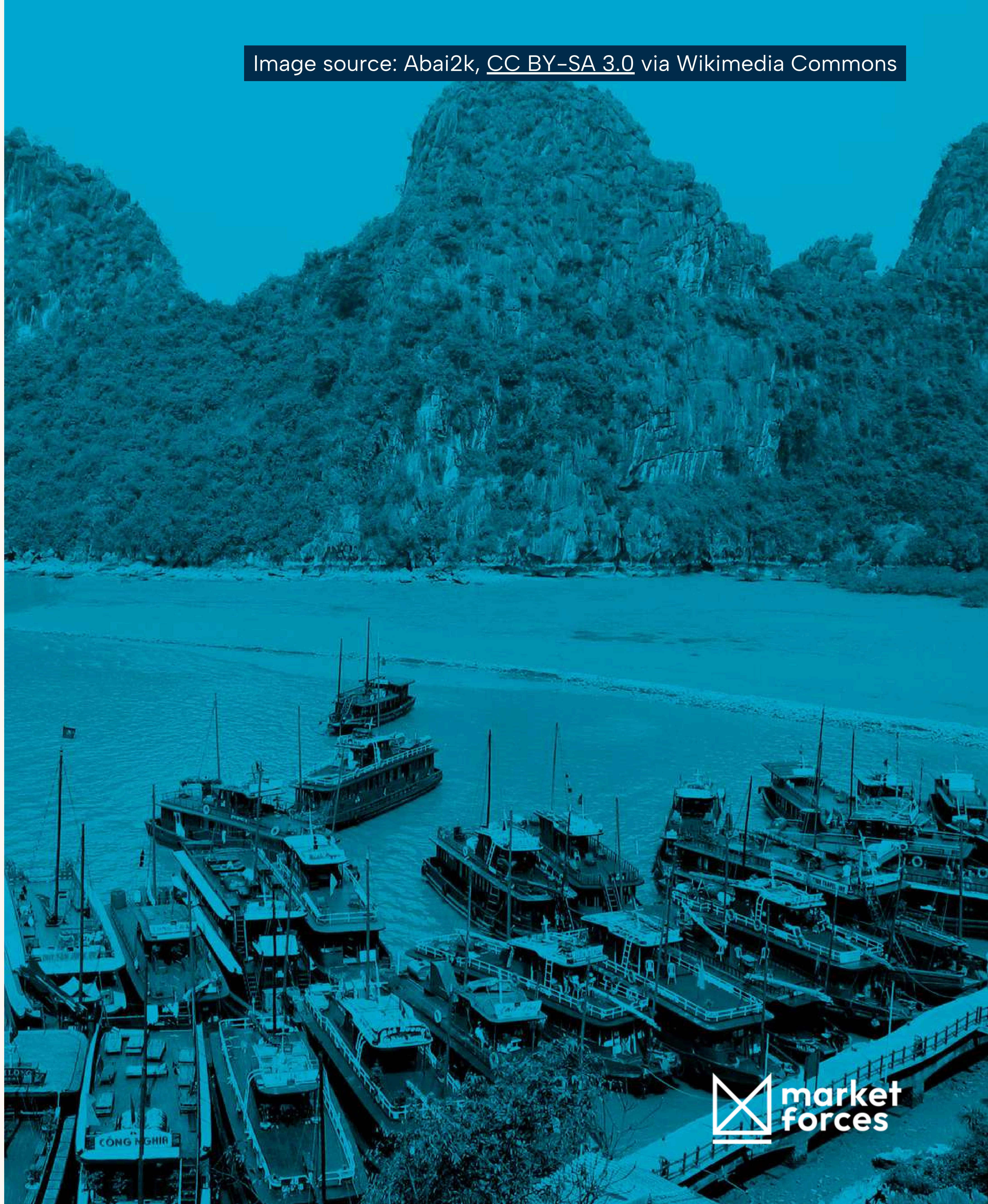
Megabank clients face stranded asset risk where policies change

Vietnam: Megabank clients, JERA, Sumitomo and Mitsubishi have significant interest in LNG to power projects in Vietnam.

Vietnam has recently recognised the concerns with the volatility of LNG prices and has set a price cap on generators' sales of electricity fuelled by imported LNG.

According to Reuters, “The 2024 price cap is based on LNG at $12.9792 per million British thermal units (mmBtu) … but average Asian spot LNG prices have trended higher since 2021, between $14 and $34/mmBtu on an annual basis, as COVID-19 and the Russia-Ukraine war drove them to record highs, making plant developers nervous about the price cap.”

This price cap raises questions about the profitability of projects where high LNG costs would eat into profits from electricity sales.



Megabanks ignore investors at their own peril: Little progress even after considerable shareholder dissent

Despite **significant shareholder support** for credible transition plan shareholder proposals at their 2024 AGMs, SMBC, Mizuho and MUFG have all failed to materially improve their approaches.

These proposals received close to or over **20% support.** Under the UK Corporate Governance Code, if 20% or more of shareholder votes are cast against a board recommendation on a resolution, the company **must publicly explain actions they will take to understand and address the reasons behind the votes.**

Australian bank Westpac faced a 58% increase in votes for a CTP proposal after making no material progress between its 2023 and 2024 AGMs.

Shareholder support for credible CTPs disclosures at Japanese and Australian banks

Bank	Paris-aligned transition plan shareholder resolution, votes in favour	Date
SMBC	24.2%	June 2024
Mizuho	22%	June 2024
MUFG	18.4%	June 2024
Westpac	21.6% → 34.2%	Dec 2023 → Dec 2024

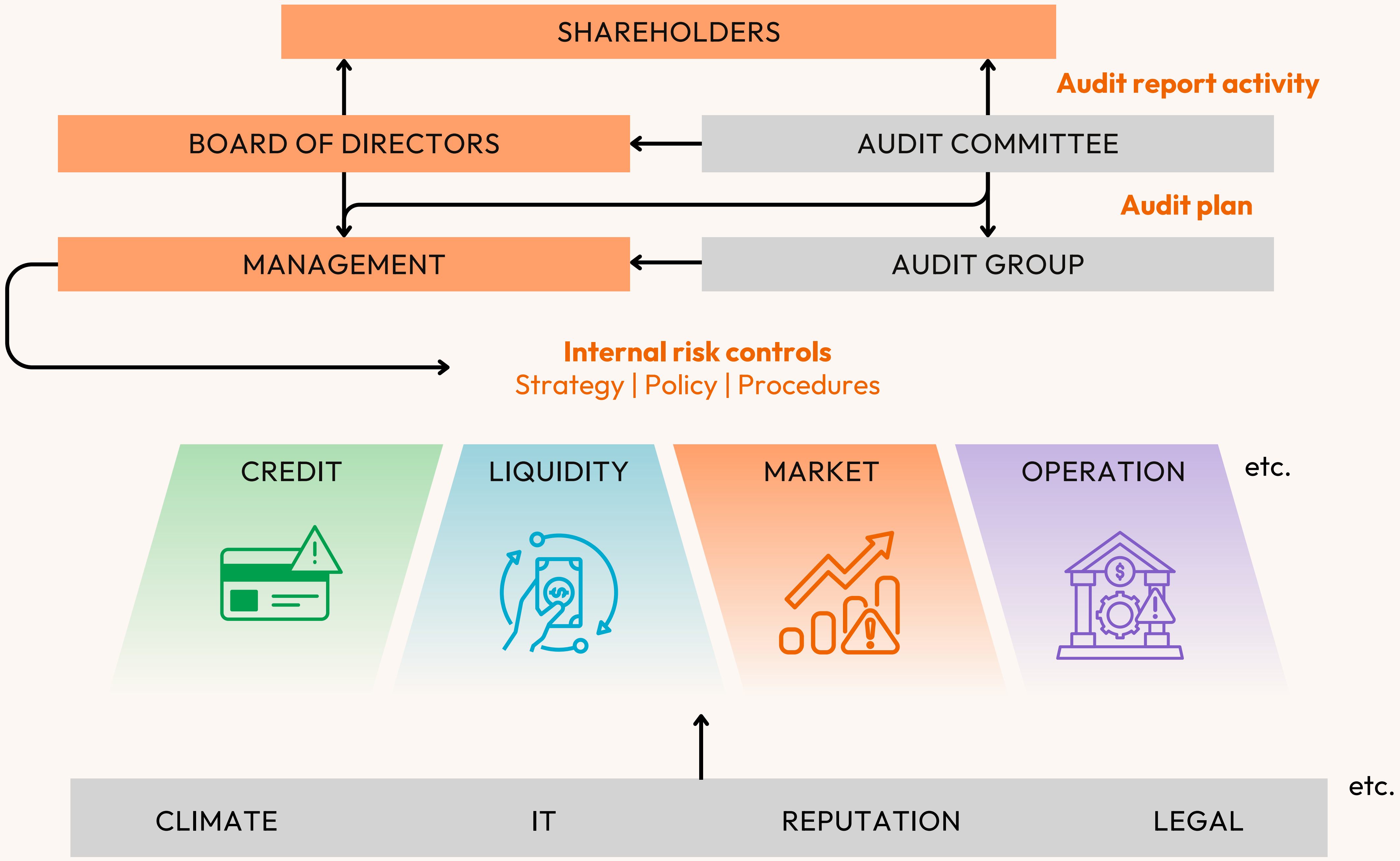
market forces

Audit Committee is responsible for ensuring directors monitor risk controls, but reports lack transparency

Audit Committees have legal duty to oversee risk management

Under Japanese law,* Audit Committees must audit the performance of executive officers and directors' duties, including risk management.

They are responsible for ensuring the Board of Directors monitors risk controls and discloses its reasoning to shareholders.



*Companies Act, Article 404-2 (1)

market forces

Megabank disclosures recognise responsibility of Audit Committee to assess adequacy of risk management execution

Audit Committee's audit items based on disclosures by Mizuho, SMBC and MUFG

- Financial reporting
- **Risk management and Internal control**
- Compliance
- Internal audit
- External audit/Accounting audit
- Management plan monitoring/ Key strategies [Mizuho]
- Global governance/Subsidiary management [Mizuho/SMBC]
- Strengthening human capital [Mizuho]

Audit Committee/Board Members

MUFG * MUFG is a Company with Three Committees accompanied by voluntary Risk Committee and the U.S. Risk Committee	Keiko Honda , Member of the Board of Directors, Member of the Audit Committee (Outside Director) Kaoru Kato, Member of the Board of Directors, Member of the Audit Committee (Outside Director) Koichi Tsuji, Member of the Board of Directors, Audit Committee Chair Person (Outside Director) Kenichi Miyanaga, Member of the Board of Directors, Member of the Audit Committee (non-executive) Ryoichi Shinke, Member of the Board of Directors, Member of the Audit Committee (non-executive)
SMBC *SMBC is a Company with Three Committees accompanied by voluntary Risk Committee and Sustainability Committee	Toshihiro Isshiki, Member of the Board of Directors, Member of the Audit Committee (Internal non-executive) Yoshiyuki Gono, Member of the Board of Directors, Member of the Audit Committee (Internal non-executive) Shozo Yamazaki*, Member of the Board of Directors, Member of the Audit Committee (Outside Director) Sonosuke Kadonaga, Member of the Board of Directors, Chairman of the Audit Committee (Outside Director) Katsuyoshi Shinbo*, Member of the Board of Directors, Member of the Audit Committee (Outside Director) *Mr. Yamazaki and Mr. Shinbo passed away on August 2024 and February 2025.
Mizuho * Mizuho is a Company with Three Committees accompamnied by voluntary Risk Committee and other comiittees	Ryoji Sato, Member of the Board of Directors, Chairperson of the Audit Committee (Outside Director) Kotaro Ohno, Member of the Board of Directors, Member of the Audit Committee (Outside Director) Takakazu Uchida, Member of the Board of Directors, Member of the Audit Committee (Outside Director) Hisaaki Hirama, Member of the Board of Directors, Member of the Audit Committee (Internal non-executive)

market forces

Gaps in Audit Committee oversight: Weak risk controls and transparency

Risk controls are not working:

- **Lending and underwriting** out of line with business strategy to decarbonise
- Banks are facing complaints on the **human rights issues** based on their financing
- Banks are facing **scandals** such as thefts by employees from safety deposit boxes

Investors need to know how the Audit Committees review the monitoring of risk controls, in particular their criteria for assessing the sufficiency of the risk controls themselves and director supervision of the implementation of the risk controls.

Why oversight matters: Megabanks' recent scandal on safe deposit boxes' thefts by bankers reveals weak risk management

the japan times
January 16, 2025
Ex-MUFG Bank employee arrested over theft of 20 kg gold deposits

REUTERS
December 16, 2024
Japan's MUFG Bank apologises for safe deposit box thefts, vows better compliance

The Mainichi
December 23, 2024
Editorial: Massive theft from safe deposit boxes shakes trust in Japan's banks

NIKKEI Asia
February 18, 2025
Mizuho Bank says worker stole safe-deposit box valuables in 2019

MUFG failed to prevent a former employee from stealing ¥1.7 billion from safe deposit boxes despite claiming third-party checks every six months.

The bank recorded several billion yen losses due to compensation, legal fees, and related costs.

Meanwhile, Mizuho only disclosed in February 2025 that a former employee had stolen ¥66 million from safe deposit boxes back in 2019 and only halted new safe deposit box services in January 2025 after MUFG's case came to light.

These incidents raise concerns about weak internal controls and risk management at Japan's megabanks.

market forces

Why oversight matters: Megabanks fail to exercise risk management/policy compliance

MUFG subsidiary Bank Danamon has financed oil palm plantation group Tunas Baru Lampung (TBLA), which is **being sued** by Indonesian government for peatland degradation and fires. Peatland drainage caused repeated, large scale fires. Smoke haze became a major public health issue.

In 2024, Indonesian Ministry of Environment and Forestry filed a lawsuit against a TBLA's subsidiary for USD41.5 million in total, for ecological and economic harms in Sumatra.

Legal penalties and other costs of environmental destruction could impact clients' ability to repay loans.

Megabanks face reputational and credit risk without adequate risk controls.

Why oversight matters: Megabanks fail to exercise risk management/policy compliance

MUFG and Mizuho finance Rio Grande LNG, Texas, USA. Stakeholders have raised the following issues with the banks.

- Non-compliance with Equator Principles: including, Free, Prior and Informed Consent (FPIC) not obtained
- Bulldozing the sacred land of Carrizo/Comecrudo Tribe of Texas
- High risks to local marginalised communities, including potential explosion of the LNG facilities, destruction of local fishermen's livelihoods and ecotourism, air and water pollution, and increase cancer and other health risks

In August 2024, the U.S. Court of Appeals for the District of Columbia Circuit vacated the FERC's approvals for the Rio Grande LNG due to inadequate environmental assessments. **Megabanks face reputational and credit risk without adequate risk controls.**

Rio Grande LNG site (© Bekah Hinojosa / SOTXEJN)

market forces

Why oversight matters: Megabanks face stranded asset risk from Papua LNG

MUFG took on the role of lead arranger for the controversial Papua LNG project in December 2024, despite massive corporate and civil society opposition, with 13 banks**—including all major French and Australian financiers of its predecessor, PNG LNG—publicly refusing to finance it.**

This project has been flagged for violating international standards, including the Equator Principles—commitments made by the megabanks. **This project bears many risks: lack of profitability in a market with an LNG glut, a lack of long term contracts**, policy and market shifts to meet climate commitments or demands by the public due to the violation of international standards noted above.

If the banks proceed with developing this project and the many risks articulated above eventuate, **the project could become a stranded asset for the megabanks – the audit committees need to ensure risk controls are being exercised.**

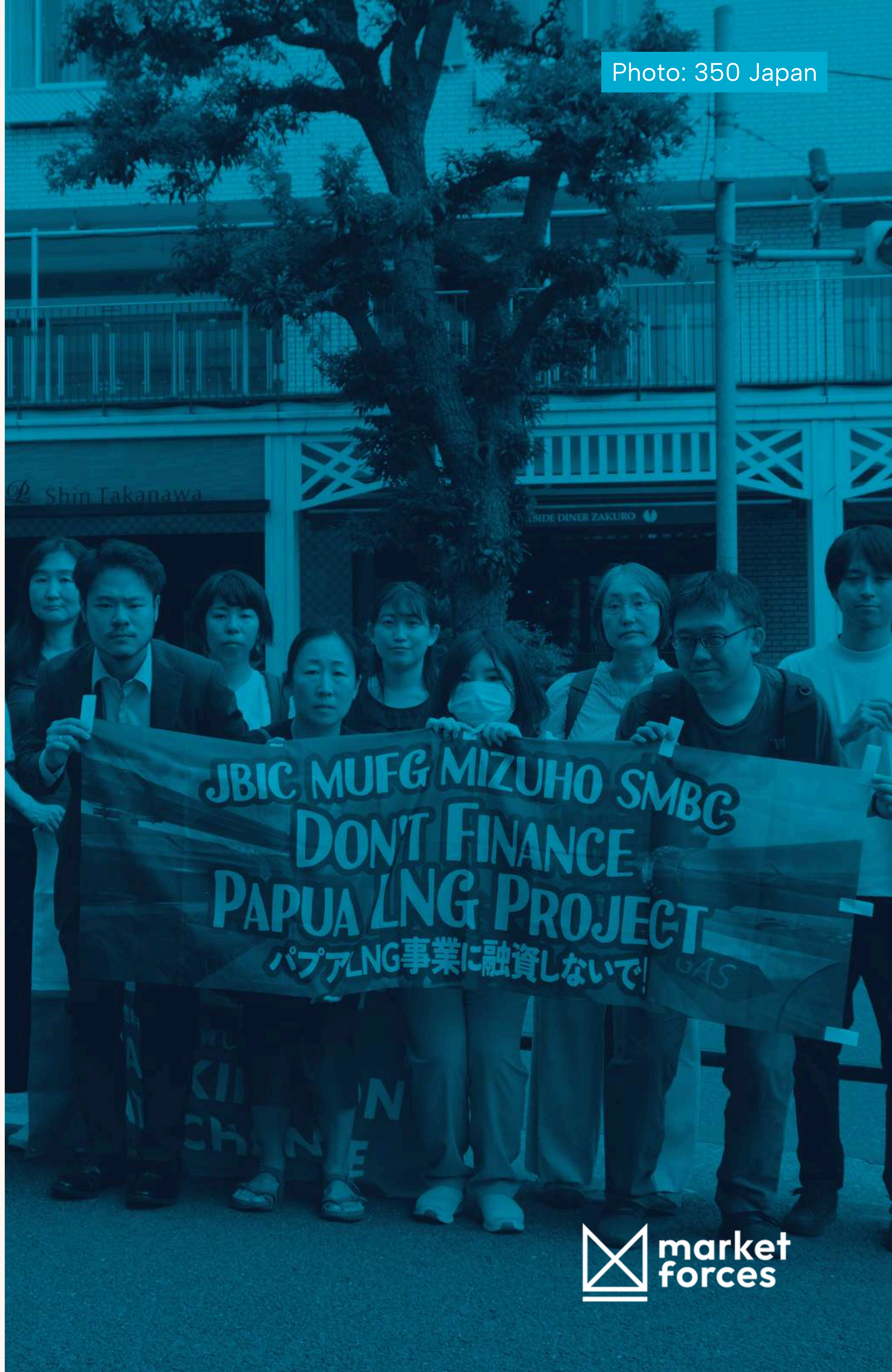


Photo: 350 Japan

market forces

Why oversight matters: Megabanks' insufficient physical risk scenario analyses lead to flawed risk management

Among Megabanks, Mizuho's scenario analysis is the most comprehensive in terms of coverage of target events, scope and period. **MUFG and SMBC's analyses are clear underestimations** and need improvement for a better understanding of climate impacts on their businesses and establishing appropriate risk control measures (see Annex II for more details).

	MUFG	SMBC	Mizuho
Target event	1) Flood 2) Temperature rise	1) Acute risks: Water disasters 2) Chronic risks: Decreased productivity due to rising temperatures, etc.	1) Acute: Cyclones and floods, wildfires, and droughts 2) Chronic: Temperature fluctuations (labor force declines, increased air conditioning usage)
Target scope	1) Overall credit portfolio using the change in default probability that the occurrence of floods (the suspension of the business of the borrower and the loss of assets) 2) The impact on the overall credit portfolio by estimating the macroeconomic effects of declining labor productivity	Corporate customers' credit-related costs expected to increase (credit costs)	1) Damage to Group's assets and credit costs associated with damage to collateral real estate 2) Credit costs associated with client revenue declines caused by business stagnation or labor force reductions
Target Period	Until 2100	Until 2050	Until 2100
Result	1) Cumulative total: Approximately JPY150 billion (approx. JPY1.95 billion per year*) 2) Up to JPY30 billion per year Total: **Maximum JPY 31.95 billion per year**	1) Cumulative JPY67 to 85 billion (approx. JPY2.48-3.14 billion: if base year is 2023) 2) Up to JPY30 billion per year Total: **Maximum JPY33.14 billion per year**	Cyclones and floods: JPY90 billion Wildfires: JPY30 billion Droughts: JPY1.5 billion Temperature fluctuations:JPY40 billion Total: **JPY161.5 billion per year**
Annual loss ratio (Reference)	**Maximum: 2.1%**	**Maximum: 3.4%**	**23.8%**

market forces

Megabanks' 2024 Audit Committee 'boilerplate' disclosures omit the basis of assessment of directors and executives' risk controls

	Audit committee statement on duties of directors and executive officers
MUFG	"In our opinion, the details of the resolutions of the Board of Directors regarding the internal control systems are appropriate. Furthermore, we believe that no material issues have been raised concerning items described in the Business Report as well as the performance of the Directors' and Corporate Executive Officers' duties both regarding the internal control systems, including that over financial reporting" Convocation notice, p. 87
SMBC	"In our opinion, the content of the resolutions of the Board of Directors regarding the internal control systems is appropriate. In addition, we have found no matters on which to remark in regard to the content of the Business Report and the execution of duties by the Directors and Corporate Executive Officers regarding the internal control systems including the internal control over financial reporting" Convocation notice, p. 45
Mizuho	"In our opinion, the content of the resolutions of the Board of Directors regarding the internal control systems is appropriate. With respect to the internal control systems, we have not found anything to be pointed out regarding the content of the Business Report nor the performance of duties by the directors and the executive officers as defined in the Companies Act." Convocation notice, p. 57

market forces

Key issues in Audit Committee disclosures

MUFG, SMBC and Mizuho all have significant oversight gaps in their 2024 Audit Committee disclosures (full assessment in Annex I):

Audit reports **lack transparency** because they do not provide reasons for assessments, explain duties of directors and executive officers regarding risk controls, or clarify how the Board of Directors and executives are evaluated.

Lack of disclosure makes it unclear whether there is sufficient Audit Committee oversight of directors' and executive officers' duties performance, including risk management.

While there is some cross membership between the committees, **no evidence of interactions between risk committees and the Audit Committee.**

Evaluation processes remains unclear since Audit Committees have not disclosed how they assesses directors and executives on strategy alignment or policy compliance.

What should the Audit Committee be disclosing?

- **Basis for their assessment** of directors and executives performing their duties

- **Criteria for their assessment** that directors are appropriately monitoring risk controls, including:
  - Directors' understanding of material risks, including climate risk management capability (as noted by investors in past resolutions)
  - Director oversight of policy development, compliance or non compliance
  - Director oversight of strategy alignment with megabanks' long-term commitments

market forces

Form of resolution and engagement timeline

Amendment to articles of incorporation is the sole legal pathway for shareholder proposals

Amending the company’s articles of incorporation is based on Japanese corporate law, and is the **most commonly** used approach to make shareholder proposals in Japan, including in 2024.

The **legal effect of such shareholder proposals is the same as the “special resolutions”** on climate change passed at UK companies including Barclays, BP, Royal Dutch Shell, Rio Tinto, which take binding effect as part of companies’ constitutions.

Nevertheless some investors would prefer **advisory** climate-related shareholder proposals **because of the form.**

We filed **advisory shareholder proposals.**

The companies **refused**.

Therefore, we have filed shareholder proposals as amendments to the articles of incorporation.

market forces

Engagement timeline

2016–Present
Market Forces, Kiko Network, and RAN (co-filers) engage with MUFG, SMBC, and Mizuho on fossil fuel financing and associated climate-related risk management, including clients' transition and governance

2020-2022
Proposal on disclosure of Paris-aligned business strategy filled at Mizuho (2020), MUFG (2021), and SMBC (2022) received strong support

2023 AGM
Proposal on disclosure of transition plans aligned with net zero emission target filed to MUFG, SMBC, and Mizuho received strong support

2024 AGM
Proposal on disclosure of processes and policies for nominating directors and evaluating the board's effectiveness and disclosure of assessment of client's transition plan received strong support

SEPTEMBER–OCTOBER 2024
Discussion on the implications of the 2024 shareholder proposals on Japanese Megabanks, focusing on strengthening climate-related risk management through policy improvements, target-setting, client engagement, and governance enhancements. Market Forces outlined areas to MUFG and SMBC where progress is needed

DECEMBER 2024
Discussion and exchanged opinions with SMBC on credibility of transition and transition finance in response to SMBC's "Transition Finance Scorebook 2024"

JANUARY–MARCH 2025
Co-filers suggest MUFG, SMBC, and Mizuho to consider the possibility of submitting an advisory proposal (勧告的決議案) at the annual general meeting of shareholders. Advisory proposal form was declined from all three banks.

MARCH–APRIL 2025
Subsequent discussions to review and clarify progresses of climate-related objectives and targets with SMBC and Mizuho. MUFG released Climate Report 2025 (in Japanese) on April 4.

Give us your feedback

Get in touch

Eri Watanabe
Japan Energy Finance Campaigner
eri.watanabe@marketforces.org.au

Kentaro Nunokawa
Japan Energy Campaigner
kentaro.nunokawa@marketforces.org.au

market forces

Annex I: Megabanks' 2024 Audit Committee disclosures omit the basis of assessment of directors' and executives' risk controls

	Bank Strategy	Bank Policies	Structures for Managing risk
MUFG	**Audit report unclear what the risk controls are in relation to strategy:** Convocation notice, p. 86,87; Supplementary Audit report.	**No assessment by audit committee regarding directors and executive officers despite finding from external auditors about internal credit rating** "As such estimation of particular borrowers' future performance and business sustainability is affected by changes in the external and internal business environment of borrowers, including changes in global economic condition, inflation, monetary policy, and geopolitical situation, there is a high degree of uncertainty and subjective judgments made by management involved in the estimate: Convocation notice, p. 77	**MUFG has established a Risk Committee and a Risk Management Committee for setting policies but it is unclear how this committee interacts with the Audit Committee. Also the Risk Management Committee only meets two times annually:** Convocation notice, p. 16
SMBC	**Audit report unclear what the risk controls are in relation to strategy:** Convocation notice, p. 45	**Audit Committee does not state why it finds internal risk controls are working:** Convocation notice, p. 45	**Unclear what the interaction is with Audit Committee - Board of Directors established Risk Committee which has met four times, and resolved to establish policy around execution of executives' duties:** Notes to non-consolidated financial statements, p. 6, 7
Mizuho	**Despite the directors recognition of physical and transition risk, audit report unclear what the risk controls are in relation to strategy:** "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": Board of Directors convocation notice, p. 57	**Despite recognising issues around credible transition plans, Audit Committee does not state why it finds that internal risk controls are working: "**Regarding credit policies for cases where our engagement is not effective and the initiatives toward decarbonization are not progressing, it is necessary to thoroughly discuss these from the perspective of risk management control": Board of Directors convocation notice, p.151 and 57	**The Board of Directors makes recommendations around structure, including a risk committee, but it is unclear how this committee are interacting with the Audit Committee:** Board of Directors convocation notice, p. 56 and 151

Annex II: Megabanks' physical risk scenario analyses

	MUFG	SMBC	Mizuho
Target event	(Below is translation from source in Japanese) 1) Flood 2) Temperature rise	1) Acute risks: Water disasters 2) Chronic risks: Decreased productivity due to rising temperatures, etc.	1) Acute: Cyclones and floods, wildfires, and droughts 2) Chronic: Temperature fluctuations (labor force declines, factors causing increased air conditioning usage)
Scenario used	IPCC SSP1-2.6 2°C scenario) and SSP5-8.5 (4°C scenario)	1) IPCC/RCP 2.6 / SSP 1-2.6 (2°C scenario) / IPCC/RCP 8.5 / SSP 5-8.5 (4°C scenario) 2) NGFS / Current Policies (3°C scenario)	NGFS Net Zero 2050 and Current Policies
Target scope	1) Overall credit portfolio using the change in default probability that the occurrence of floods (the suspension of the business of the borrower and the loss of assets) 2) The impact on the overall credit portfolio by estimating the macroeconomic effects of declining labor productivity	Corporate customers' credit-related costs expected to increase (credit costs)	1) Damage to Group's assets and credit costs associated with damage to collateral real estate 2)Credit costs associated with client revenue declines caused by business stagnation or labor force reductions
Region	NA	Global	Japan and overseas
Target Period	Until 2100 using the end of March 2024 as the standard	Until 2050	Until 2100
Result	1) Cumulative total: Approximately JPY150 billion (approx. JPY1.95 billion per year*) 2) Up to JPY30 billion per year Total: **Maximum JPY 31.95 billion per year** *Reference value calculated by dividing the cumulative total by the number of years from the base year to 2100	1) Cumulative JPY67 to 85 billion (approx. JPY2.48-3.14 billion: if base year is 2023*) 2) Up to JPY30 billion per year Total: **Maximum JPY33.14 billion per year** * Reference value calculated by dividing the cumulative total by the number of years from the base year to 2050	Cyclones and floods: JPY90 billion Wildfires: JPY30 billion Droughts: JPY1.5 billion Temperature fluctuations:JPY40 billion Total: **JPY161.5 billion per year**
Annual loss ratio (Reference)	**Maximum: 2.1%** Compared to net profit for FY2023; attributable to owners of parent (JPY 1490.7 billion) Source: MUFG Key Figures	**Maximum: 3.4%** Compared to net profit for FY2023; attributable to owners of parent (JPY 962.9 billion) Source: SMFG Performance and financial highlights	**23.8%** Compared to net profit for FY2023; attributable to owners of parent (JPY 678.9 billion) Source: Mizuho Financial performance

Annex III: Japanese law gives audit committee responsibility for auditing the performance of directors’ and executive officers’ duties including risk management

[Companies Act (Japan)]

Article 404-2 (i) An audit committee performs the following duties: (i)auditing the execution of duties by Executive Officers, Etc. (meaning executive officers and directors, or, for a Company with Accounting Advisor(s), meaning executive officers, directors and accounting advisors; hereinafter the same applies in this Section) and preparing audit reports…

[Corporate governance code]: Principle 4.4 Roles and Responsibilities of Kansayaku and the Kansayaku Board

Kansayaku and the kansayaku board should bear in mind their fiduciary responsibilities to shareholders and make decisions from an independent and objective standpoint when executing their roles and responsibilities including the audit of the performance of directors’ duties…