Investor Briefing | Shareholder resolution filed with Mizuho Financial Group

16 March 2020

This briefing details the case for the shareholder proposal filed on **March 13, 2020**[1] with **Mizuho Financial Group (Mizuho)** by shareholder Kiko Network (Climate Network), a Japan-wide NGO network headquartered in Kyoto. Kiko Network proposes that Mizuho **disclose a plan outlining its business strategy to align its investments with the climate goals of the Paris Agreement.** This will assist investors to appropriately assess and price climate-related risk, consistent with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), of which Mizuho is a supporter.

Kiko Network puts forward this proposal as Mizuho's current disclosure, lending and underwriting, and the trajectory set by its policies and prospective lending do not demonstrate that Mizuho is minimising its exposure to climate-related risk.

Kiko Network urges other investors to:

- vote for this proposal prior to or at Mizuho's June 2020 shareholder meeting,
- advise Mizuho and the broader public of their intention to vote for this proposal, and
- engage with Mizuho on its policy for investing in coal power and its Environmental and Social Policy Framework for loans and underwriting,[2] considering Mizuho's current policy review.

Shareholder proposals in Japan

Shareholder proposals are a common method for shareholders to interact with a company's board, including in Japan. In 2019, there were 54 shareholder proposals filed with various Japanese companies, up from 42 in 2018.[3] Shareholder proposals are commonly made by institutional investors (at least 12 in 2019) and commonly attract significant shareholder support (approximately 20% or over).[4] Therefore, proposals are a popular method of signaling a need for a change in business strategy within the company.[5]

[1] The Proposal was mailed in accordance with Japanese Company Law on March 13, 2020. Mizuho will receive the proposal on March 16, 2020.

[2] Mizuho Financial Group, "Strengthening the promotion system for sustainability activities" (in Japanese), online: https://www.mizuho-fg.co.jp/release/pdf/20190522release_jp.pdf.

[3] Jun Usami, Arthur M. Mitchell, Nels Hansen, Shino Asayama, Marina Tatsumi, White & Case, 'Japan's 2019 Proxy Season Results Announced (Shareholder Activism Update)', (12 September 2019), online: https://www.whitecase.com/publications/alert/japans-2019-proxy-season-results-announced-shareholder-activism-update.

[4] *Ibid.*

[5] Akira Matsushita, Chambers and Partners, 'Shareholders' Rights & Shareholder Activism 2019, (23 July 2019), online: https://practiceguides.chambers.com/practice-guides/shareholders-rights-shareholder-activism-2019/japan.

Under the Japanese Companies Act, proposals can only be made to the matters that shareholders could exercise the voting rights, which includes matters provided in the articles of incorporation of the company.[6] This is the most commonly used approach to make proposals.

Asks of the shareholder proposal

While the text submitted to Mizuho is in Japanese, we provide an English translation:

> ***The Proposal***
> *Partial amendment to the Articles of Incorporation (disclosure of a plan outlining the company's business strategy to align its investments with the goals of the Paris Agreement)*
>
> ***Details of the proposal***
>
> *It is proposed that the following provision be added to the Articles of Incorporation:*
>
> *Noting the company's support for the Paris Agreement and the Task Force on Climate-related Financial Disclosures (TCFD), the company shall disclose in its annual reporting a plan outlining the company's business strategy, including metrics and targets, to align its investments with the goals of the Paris Agreement.*

The aim of this proposal is to protect shareholders' capital invested in Mizuho by minimising the company's exposure to climate change risk, in order to best promote the long-term success of the company. Similar to other shareholder proposals brought worldwide (see below), this proposal seeks disclosure of how Mizuho plans to phase out the provision of investments in projects and companies that are not Paris-aligned. The proposal would also involve Mizuho reporting on progress annually.

The proposal is not intended to be unduly prescriptive, require the release of commercially confidential information, or limit the company's powers to set or vary its strategy. It permits Mizuho options in how it achieves this agenda in light of client relationships and commercial interests so long as it is compliant with Paris goals.

Examples of past climate resolutions in other jurisdictions			
Company	Country	Effect	Text
Standard Bank	South Africa	The portion regarding coal power financing passed	Report to shareholders by November 2019 on the company's assessment of greenhouse gas emissions resulting from its financing portfolio; and that the company adopt and publicly disclose a policy on lending to coal-fired power projects and coal mining operations
BP	UK	BP recommended that shareholders	Include in its Strategic Report and/or other corporate reports, as appropriate, for the year ending 2019 onwards, a description of its

[6] Companies Act, Act No. 86 of 2005, online: http://www.japaneselawtranslation.go.jp/law/detail/?vm=04&re=01&id=3206

		vote for the resolution and it passed	strategy which the Board considers, in good faith, to be consistent with the goals of Articles 2.1(a) and 4.1 of the Paris Agreement (the 'Paris Goals') as well as capital expenditure...and metrics and targets….
JP Morgan	US	Proposed	Issue a report, at reasonable cost and omitting proprietary information, outlining if and how it intends to reduce the GHG emissions associated with its lending activities in alignment with the Paris Agreement's goal of maintaining global temperature rise below 1.5 degrees Celsius
ANZ	Australia	Not passed, needs constitutional amendment	Disclose in annual reporting from 2020 strategies and targets to reduce exposure to fossil fuel (oil, gas, coal) assets in line with the climate goals of the Paris Agreement, including the elimination of exposure to thermal coal in OECD countries by no later than 2030

Why vote for the shareholder proposal

- Given the widespread recognition of climate risk as financial risk and Mizuho's public support for the Paris Agreement, Mizuho should demonstrate how its business is Paris-aligned
- What we know about Mizuho's financing does not demonstrate that its business strategy adequately considers climate risk
- Mizuho is lagging in policy-setting
- Mizuho's coal lending presents risks even in the short term
- Traditional engagement with Mizuho has not been fruitful

1. *Given the widespread recognition of climate risk as financial risk and Mizuho's public support for the Paris Agreement, Mizuho should demonstrate how its business is Paris-aligned*

Climate change is estimated to cost the global economy an extra US$50 trillion in damages and lost productivity by 2060.[7] Banks need to shift their business strategies now to manage this risk. As stated by Mark Carney, then Governor of the Bank of England, if banks wait for climate change to affect short-term profits, the sector could be acting too late to avert climate change's most serious financial impacts.[8] The Government Pension Investment Fund's Chief Investment Officer has called climate change "a systemic risk affecting the entire range of our investments, one that can't be eliminated simply through diversification."[9]

In June 2017, in order to allow investors to "appropriately assess and price climate-related risk and opportunities,"[10] the Task Force for Climate-related Financial Disclosures (TCFD) published its final recommendations, widely supported by the financial sector, including by Mizuho.

[7] CitiGPS, 'ENERGY DARWINISM II: Why a Low Carbon Future Doesn't Have to Cost the Earth,' (2015), online: https://ir.citi.com/hsq32Jl1m4aIzicMqH8sBkPnbsqfnwy4Jgb1J2kIPYWIw5eM8yD3FY9VbGpK%2Baax.
[8] Mark Carney, Speech: A new horizon. (2019), online: https://www.bankofengland.co.uk/-/media/boe/files/speech/2019/a-new-horizon-speech-by-mark-carney.pdf?la=en&hash=F63F8064E0408F038CABB1F29C58FB1A0CD0FE25.
[9] Hiro Mizuno, Time, 'How Making Smart Financial Decisions Can Have a Positive Impact on Climate Change', (12 September 2019) online: https://time.com/5669045/climate-change-investment/.
[10] Recommendations of the Task Force on Climate-related Financial Disclosures (2017), online: https://www.fsb-tcfd.org/wp-content/uploads/2017/06/FINAL-TCFD-Report-062817.pdf.

Recognising banks' exposure to climate-related risks through their lending and other financial intermediary activities as well as through their own operations,[11] the TCFD recommends that banks provide "the **metrics** used to assess the impact of (transition and physical) climate-related risks on their lending and other financial intermediary business activities in the short, medium, and long term"[12] and that banks "describe their key climate-related **targets**... in line with anticipated regulatory requirements or market constraints or other goals."[13] (emphasis added).

These targets would therefore need to reflect the global Paris Agreement goals of limiting "the increase in the global average temperature to well below 2°C above pre-industrial levels and pursuing efforts to limit the temperature increase to 1.5°C," and making "finance flows consistent with a pathway towards low greenhouse gas emissions and climate-resilient development."[14]

Major financial institutions have called for action to reduce emissions in line with the Paris climate goals. Signed by 631 investors representing over US$37 trillion in assets, the Global Investor Statement to Governments on Climate Change requests governments "phase out thermal coal power worldwide by set deadlines,"[15] an ask reiterated in February 2020 in a global investor letter to Japan's Prime Minister Abe.[16] As a signatory of the UN Principles for Responsible Banking, also as a member of Japan Climate Initiative, Mizuho itself has publicly committed to align its business strategy with Paris.[17]

Adoption of this proposal would ensure Mizuho discloses metrics and targets to demonstrate effective management of financial climate change risks, in line with the TCFD recommendations and broadly stated investor expectations.

2. What we know about Mizuho's financing does not demonstrate that its business strategy adequately considers climate risk

Despite the rapid decline in fossil fuel use required for a Paris-aligned transition, Mizuho's lending and underwriting fail to reflect this trend.

While Mizuho has disclosed that the combined ratio of "measured energy sector and utility sector credit exposure" makes up approximately 7.2% of its total credit exposure,[18] this exposure does not

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[11] *Ibid.*
[12] *Ibid.*
[13] *Ibid.*
[14] Paris Agreement (2015), online: https://unfccc.int/sites/default/files/english_paris_agreement.pdf.
[15] Global Investor Statement to Governments on Climate Change, online: https://theinvestoragenda.org/wp-content/uploads/2019/12/191201-GISGCC-FINAL-for-COP25.pdf.
[16] Investor Statement (17 February 2020), online: https://www.aigcc.net/wp-content/uploads/2020/02/1702202_Letter_Japan-NDC_ENGLISH-1.pdf.
[17] Principles for Responsible Banking, online: https://www.unepfi.org/banking/bankingprinciples/.
[18] Mizuho 2019 Integrated Report, pg. 47, online: https://www.mizuho-fg.com/investors/financial/annual/data1903/pdf/data1903_all.pdf, this excludes renewables, nuclear energy and water utilities.

include other carbon intensive sectors,[19] the trajectory of this credit exposure, or its fossil fuel exposure across other parts of its business. Because Mizuho's 2019 integrated report also fails to disclose analysis of its lending portfolios in light of any carbon constraint scenario, investors do not have an understanding of how this lending and the related climate risks or opportunities may impact its business over time.

What we do know about Mizuho's lending raises significant concern. The 2019 Banking on Climate Change report report (Fossil Fuel Report Card) found that Mizuho ranked 10th amongst the largest global financiers of the fossil fuel industry since the Paris Agreement (2017-2019).[20] In respect of coal in particular, a December 2019 report on global financiers of the coal industry identifies Mizuho as **the largest lender in the world to coal developers** - providing nearly US$16.8 billion between 2017 and September 2019.[21]

3. Mizuho is lagging in policy-setting

Many global banks have made efforts to restrict lending to coal power developers and projects to signal a reduced risk appetite for carbon intensive sectors. Mizuho's coal policy lags behind its peers, including banks focusing on emerging markets.

Mizuho's current policy (May 2019) explicitly allows it to continue financing new coal power projects, despite the IEA's Executive Director statement that to meet the goals of the Paris Agreement, "we have no room to build anything that emits CO_2". Its policy permits finance to "*advanced ultra-supercritical pressure and higher efficiency projects"* as well as projects consistent with energy policies in host countries and Japan's energy policy, and projects where declarations of support have been made.[22] **Given these loopholes, Mizuho could finance almost any coal power project around the world.**

Mizuho has also fallen behind its peers in Asia, such as the banks in Singapore, namely DBS, OCBC and UOB Bank, which all created policies in April 2019 to rule out all lending to coal power projects. Other than DBS, these banks have no grandfathered coal projects in the pipeline. UK's Standard Chartered Bank, which has significant business in emerging markets, has recently released a policy which seeks to phase out support for coal power with Paris-aligned timelines.

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[19] As an example of concerns with Mizuho's lending in other carbon intensive sectors, Mizuho was recently found to be also financing the destruction of critical carbon sinks on the planet - namely tropical forests and peatlands, and fueling the devastating fires in Indonesia that have placed the country among the top global emitters. Rainforest Action Network, 'Will Japan's Megabanks Stop Financing Rainforest Destruction', (2020) online: https://www.ran.org/wp-content/uploads/2020/01/RAN_JP-Megabanks-Briefing_Jan2020_FINAL.pdf.

[20] Fossil Fuel Finance Report Card, (2019) online: https://www.ran.org/bankingonclimatechange2019/.

[21] Banktrack, 'Banks and investors against the future" (6 December 2019), online: https://www.banktrack.org/article/banks_and_investors_against_the_future.

[22] *Supra,* note 2.

Examples of coal policies from banks seeking to align with the goals of Paris		
	Credit Agricole (best in class)[23]	Standard Chartered[24]
Coal power projects	No lending to coal power projects	No lending to new coal power projects (it also confirmed the withdrawal from three projects in the pipeline.)
Client criteria	No new clients with a reliance on coal above 25% of their turnover in the thermal coal sector. No support for clients expanding coal operations. All clients must have by 2021 a detailed plan in line with this timeline.	Only support clients who actively transition their business to generate less than 10% of earnings from thermal coal by 2030
Phase out	Coal phase out by 2030 in EU / OECD countries, 2040 in China and 2050 elsewhere. For clients in breach of the 25 per cent threshold, only loans dedicated to renewable energy or GHG reduction projects will be authorised.	January 2021: no clients 100% dependent on thermal coal earnings January 2025: no clients 60% dependent on thermal coal earnings January 2027: no clients 40% dependent on thermal coal earnings January 2030: no clients 10% dependent on thermal coal earnings

Mizuho's lending to coal power projects shows no sign of abating, as it is likely that **Mizuho is considering financing Vung Ang 2, a new 1200MW coal-fired power project in Vietnam.**

4. Mizuho's coal lending presents risks even in the short term

In addition to the other climate risks discussed above, Mizuho faces significant short-term risk to its reputation from its coal lending. In early March 2020, youth activists associated with Fridays for Future called on Mizuho to withdraw from its coal-related businesses in Nikkei Asian Review,[25] and protested in front of the Mizuho's headquarters in Tokyo. Such activities may continue in the lead up to the Tokyo Olympics, of which Mizuho is a gold sponsor. With Mizuho's retail business and domestic lending business experiencing financial difficulties,[26] this criticism at home will only hurt the company further.

[23] Credit Agricole,' Climate Strategy', (June 2019), online: https://www.banktrack.org/download/climate_strategy_in_english_1/strategieclimat_eng062019.pdf.
[24] Standard Chartered Bank, Press Release, (17 December 2019), online: 'https://www.sc.com/en/media/press-release/weve-released-our-climate-change-disclosures-report-and-announced-bold-measures-in-support-of-the-paris-agreement/; Climate Change Disclosures (2019), online: https://av.sc.com/corp-en/content/docs/Standard-Chartered-Climate-Change-Disclosures-2019.pdf.
[25] Isao Sakai, Nikkei Asian Review, 'Japanese banks must stop funding coal megaprojects', (6 March 2020), online: https://asia.nikkei.com/Opinion/Japanese-banks-must-stop-funding-coal-megaprojects.
[26] IFR News, 'Mizuho's first half profit down a fifth' (14 November 2019).

Mizuho's strategy to compensate for losses in Japan may be to develop its overseas lending; however, lending to coal power is not a viable solution. For example, the coal plant that Mizuho is now likely considering financing in Vietnam, Vung Ang 2, runs the risk of becoming a stranded asset as the solar boom in Vietnam continues.[27] According to a recent report from financial think tank Carbon Tracker, it is already cheaper in Vietnam to build new solar PV and wind than new coal.[28] By 2022, it will be cheaper in Vietnam to build new solar PV and coal than running existing coal power plants.[29]

As Mizuho links itself with coal power in Vietnam, it runs the risk of becoming increasingly unpopular in that country. Polling in Vietnam has shown that 89% of the respondents preferred renewable energy to coal, with 52% saying that the respondents would be unfavourable to foreign governments, banks and companies that invested in fossil fuels as compared with 76% providing a very favourable response where these entities invested in renewables.[30]

5. Traditional engagement with Mizuho has not been fruitful

Kiko Network is part of a collective of NGOs that has engaged with Mizuho on its fossil fuel lending since 2015. The collective has raised these issues through the publication of reports, writing letters to the bank on its environmental policy and specific carbon-intensive projects it has financed such as the Van Phong 1 coal-fired power project in Vietnam. This collective also has engaged with Mizuho on its TCFD reporting.

In recent months, Kiko Network has raised these issues with Mizuho directly. This engagement has not sufficiently raised hopes that the company is strategising about how to best align its investments with the climate goals of the Paris Agreement.

In his speech at a TCFD conference in Tokyo in October 2019, Mark Carney stated:

"To bring climate risks and resilience into the heart of financial decision-making, climate disclosure must become comprehensive, climate risk management must be transformed, and investing for a two-degree world must go mainstream."[31]

Mizuho has not demonstrated in its current lending or policy statements that it is planning for such a world, and risks being left behind.

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[27] WoodMac, 'Vietnam becomes Southeast Asia's hottest solar PV market', (1 November 2019), online: https://www.woodmac.com/press-releases/vietnam-becomes-southeast-asias-hottest-solar-pv-market/.
[28] Carbon Tracker, 'How to waste over half a trillion dollars' (March 2020), online: https://carbontracker.org/reports/how-to-waste-over-half-a-trillion-dollars/
[29] *Ibid.*
[30] E3G, 'Polling finds citizens in six belt and road countries want clean energy, not coal,' (24 April 2019), online: https://www.e3g.org/news/media-room/polling-citizens-six-belt-and-road-countries-want-clean-energy-not-coal.
[31] Mark Carney, Speech: TCFD Strengthening the Foundations of Sustainable Finance, (8 October 2019), Tokyo TCDF Summit, online: https://www.bankofengland.co.uk/-/media/boe/files/speech/2019/tcfd-strengthening-the-foundations-of-sustainable-finance-speech-by-mark-carney.pdf?la=en&hash=D28F6D67BC4B97DDCCDE91AF8111283A39950563.

As such, Kiko Network seeks that Mizuho disclose a plan outlining its business strategy to align its investments with the climate goals of the Paris Agreement, and asks investors to vote for its proposal at Mizuho's June 2020 shareholder meeting and advise Mizuho and the broader public of this intention.

At this time when Mizuho is considering revising its sector policy, including its policy on coal-fired power, Kiko Network urges investors to engage on this policy, seeking that Mizuho demonstrate a lowered risk appetite for projects that are not Paris-aligned.

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