Final Investor Briefing[1]
Mizuho's disclosure and its business strategy remain insufficient

15 June 2020

In a response dated June 10, 2020,[2] Mizuho Financial Group stated its opposition to Kiko Network's climate change-related shareholder proposal, claiming it has already stipulated similar provisions in their Environment Policy based on the goals of the Paris Agreement and the recommendations of the Task Force for Climate-related Financial Disclosures (TCFD) and that the form of the shareholder proposal is inappropriate. However,

- While Mizuho has taken some positive steps, its current disclosure, business strategy and associated targets only represent a tiny fraction of its investments and are not Paris-aligned.
- The proposal is consistent with other shareholder proposals and policies related to other financial institutions.

As such, this proposal remains crucial for shareholders to appropriately assess Mizuho's climate-related risk. Furthermore, as the Mizuho shareholder proposal will be the first climate-focused shareholder proposal in Japan, we expect the environmental credentials of global investors will be assessed based on this vote.

We address some of the issues below.

1. Shareholder proposal and reasons for form

Text of Proposal: 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.

Kiko Network's shareholder proposal has been worded as an amendment to Mizuho's articles of incorporation. Although Mizuho states that it is "inappropriate in light of the conventional positioning of the Articles of Incorporation describing the company's purpose, name, and other such matters", it is common practice to make shareholder proposals in this form in Japan owing to requirements under the Japanese Companies Act.

The Companies Act provides "for a Company with a Board of Directors, only the matters provided for in the Act and the matters provided for in the articles of incorporation may be resolved at a shareholders meeting."[3] Owing to clauses in most company's articles of incorporation, the matters for which a shareholder may make a proposal and those a company shall accept to be discussed at the shareholder meeting are substantially restricted to matters provided in the Companies Act, such as election and dismissal of director(s), and change in articles of incorporation. Therefore, "partial amendment to the articles of

[1] This briefing incorporates information from earlier briefings dated March 16, 2020 and May 1, 2020.
[2] Proposal 5 at the 18th Ordinary General Meeting of Shareholders, June 10, 2020. CONVOCATION NOTICE OF THE 13TH ORDINARY GENERAL MEETING OF SHAREHOLDERS, June 7, 2020.
[3] Companies Act, Article 295 (2), Act No. 86 of 2005. For further information, see 2019 analysis from White & Case.

incorporation" is a commonly used approach to make proposals. If these approaches are not taken, the requirements under the Act are not satisfied.

2. Mizuho's disclosure is insufficient - Current disclosure only provides targets regarding a tiny percentage of Mizuho's loan book

Mizuho's 2020 policy states that it will reduce its Fiscal Year (FY) 2019 credit balance for coal-fired power generation facilities by 50% by FY2030, and achieve an outstanding credit balance of zero by FY2050. Its 2019 credit balance is expected to be approximately ¥300 billion (US$2.8 billion).[4] However its explanation why only targets are provided for this form of finance is unclear.

Project finance lending to coal power represents a small percentage of Mizuho's loan book. Mizuho's outstanding loan balance for FY2018 was at ¥78,456.9 billion (US 701 billion).[5] Mizuho's credit balance to coal power only represents approximately **0.38% of the total credit balance**.[6]

Meanwhile, Mizuho's lending to coal and other fossil fuel developers (corporate finance, rather than project finance) is a significant proportion of its business. The 2020 Banking on Climate Change report found that from 2016 to 2019 alone, Mizuho provided US$4.24 billion in lending and underwriting to coal power.[7] In its 2020 TCFD report, Mizuho itself indicates its credit exposure in carbon-related sectors represents 7.3% of its total credit exposure.[8] However, Mizuho does not set plans with metrics and targets to manage the climate risks owing to this exposure.

Mizuho explains that they are engaging with clients to "realize a low-carbon society together." However, without an understanding of Mizuho's business strategy and without metrics and targets, it would be difficult to measure the fruits of this engagement.

Given the TCFD recommendation for disclosure of "metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material",[9] Mizuho's disclosure remains insufficient. Mizuho fails to provide a plan or targets for the alignment of the rest of its investments (outside of project finance lending to coal power) with the climate goals of the Paris Agreement. Investors require more from Mizuho to better understand its business strategy and determine whether it is Paris-aligned.

3. Mizuho's current targets are not aligned with the goals of the Paris agreement

The targets set for project finance to coal power plants are themselves not aligned with the goals of the Paris Agreement. While Mizuho commits to achieving a zero credit balance for coal power plants by 2050, experts state that coal needs to be phased out by 2040 globally if global warming is to be limited to 1.5°C.[10]

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[4] Mizuho Financial Group, "Strengthening our sustainability initiatives", 15 April 2020, (2020 Policy), Pg. 3.

[5] Mizuho 2019 Integrated Report, pg. 131.

[6] As we do not have information about Mizuho's credit exposure, we have had to compare its FY2019 project finance lending to coal power to its FY2018 loan balance. Given what we know about Mizuho's lending to coal power over the last year, we do not anticipate that this will cause too much of a discrepancy.

[7] Rainforest Action Network et al, Fossil Fuel Finance Report Card (2020).

[8] Mizuho 2020 TCFD Report, pg. 19. However, it is unclear whether other non-utility companies involved in the coal industry, such as conglomerates with coal or gas power development or coal mining arms, are included in this mix.

[9] Recommendations of the Task Force on Climate-related Financial Disclosures (2017).

[10] Climate Analytics, Coal phase out, (accessed June 12, 2020).

Mizuho may also be able to rely on exceptions in its policy to finance coal power projects. Therefore, it may consider supporting a controversial new coal-fired power station, Vung Ang 2 in Central Vietnam. The fact that Mizuho is likely to consider providing funding to a new coal power station raises questions about whether it fully grasps and is planning for the climate crisis.

4. The proposal is consistent with what has been sought from and adopted by financial institutions worldwide

This proposal is consistent with what has been sought from financial institutions worldwide, making similar asks as other well-supported shareholder proposals, such those filed with JP Morgan Chase[11] and by Barclays Bank.[12]

Some investors have indicated that they will be supporting this shareholder proposal. Norway's largest pension fund and life insurance company, Kommunal Landspensjonskasse (KLP), Storebrand ASA and Denmark's MP Pension have publicly declared that they will be voting for the proposal in April,[13] and have indicated this support continues despite Mizuho's opposition to the proposal.

Standard Chartered, a bank with significant lending in emerging markets, has not only committed to stop all lending to new coal power, and confirmed the withdrawal from projects in its pipeline, it has committed to only support clients who actively transition their business to generate less than 10% of earnings from thermal coal by 2030, with a clear phase out plan providing metrics and targets[14] as follows:

- By January 2021, no clients 100% dependent on thermal coal earnings;
- By January 2025: no clients 60% dependent on thermal coal earnings;
- By January 2027: no clients 40% dependent on thermal coal earnings;
- By January 2030: no clients 10% dependent on thermal coal earnings.

Adoption of this proposal would ensure Mizuho discloses metrics and targets about the parts of its business exposed to climate risk to demonstrate effective management of those risks, in line with the TCFD recommendations and broadly stated investor expectations.

We urge investors to vote for Kiko Network's proposal at Mizuho's shareholder meeting seeking a plan from Mizuho outlining a Paris-aligned business strategy and advise Mizuho of the reasons for your decision.

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[11] ICCR, JP Morgan proposal: Report on Reducing GHG Emissions Associated with Lending Activities.
[12] Barclays Notice of AGM pg 13. (2020).
[13] Aaron Sheldrick, Reuters, 'Investors line up against Mizuho support for coal' (April 6, 2020).
[14] Standard Chartered Bank, Press Release, (17 December 2019); Climate Change Disclosures (2019).