*Explanatory material for investors*

## Shareholder Proposals for 20th Annual General Meeting of Shareholders of SMBC Group:

**Despite committing to the goal of net zero emissions by 2050 and the goals of the Paris Agreement, SMBC Group is aligning its financing with the failure of these goals. Without disclosure to ensure that SMBC Group's business strategy is in keeping with these commitments, including clear short and medium-term emissions reduction targets and disclosure of proactive measures taken to ensure that the bank is not financing the expansion of new fossil fuel supply, shareholders face unnecessary and unacceptable transition and reputational risks.**

April 20, 2022

On April 11, 2022, 350.org Japan[1], Market Forces, Rainforest Action Network[2] and Kiko Network (hereinafter referred to as co-filers) submitted shareholder proposals to Sumitomo Mitsui Financial Group (hereinafter referred to as SMBC Group).[3] This document explains the content and the rationale of the shareholder proposals.

**The shareholder proposals seek SMBC Group to set and disclose short- and medium-term greenhouse gas emissions reduction targets for its portfolio and disclose measures to ensure no contribution to new fossil fuel development** so that investors can have confidence SMBC Group's business strategy will keep pace with market and governmental action to meet the Paris climate goals. The proposals also seek to maintain and improve SMBC Group's corporate value by reducing the bank's exposure to climate risk.

Shareholders should support the proposals on the basis that

(1) Disclosure of short- and medium-term emissions reduction targets to manage down exposure to carbon-intensive sectors aligns with investor expectations;

(2) SMBC Group needs to disclose the measures it is taking to align with the Paris Agreement and the global goal of net zero by 2050, as its current policies and actions demonstrate that it is expanding fossil fuel supply, contrary to those goals;

(3) SMBC Group is falling behind peer banks in terms of policy, underscoring the need for further disclosure to show proactive management of climate risk; and

(4) Engagement with SMBC Group has not provided assurance of necessary disclosure.

**We ask investors to support the shareholder proposals in the following ways:**

- Vote for these shareholder proposals at the SMBC Group Annual General Meeting in June 2022;
- Communicate to SMBC Group your intention to vote for the proposals, and publicly express your support for the proposals;
- Engage with SMBC Group on the need to take positive measures to ensure the proceeds of the

[1] Individuals affiliated with 350.org Japan.

[2] An individual affiliated with RAN Japan.

[3] The proposals were mailed on April 11, 2022 in accordance with the procedures stipulated in the Companies Act of Japan. It is expected to be received by SMBC Group on April 12.

Company's lending and underwriting are not used for the expansion of fossil fuel supply or associated infrastructure, including strengthen its investment and financing policies related to fossil fuels, deforestation and other business activities that increase climate risk, and encourage further information disclosure on these matters, including emissions reduction targets.

The co-filers remain open to engaging with SMBC Group up to and beyond the Annual General Meeting. Early and concerted engagement from investors will assist with making progress in relation to corporate policy and practice.

## 1. Reasons to support the shareholder proposals

### (1) Investors expect short- and medium-term emissions reduction targets to manage down exposure to carbon-intensive sectors

As the effects of climate change intensify, it has become clear that serious damage will be unavoidable unless average global temperature rise is kept not only below 2°C, but rather at 1.5°C.[4] The most recent IPCC's report pointed out that we need to peak out our global emissions by 2025 at the latest and need 43% emission reductions by 2030 compared to 2019 level.[5] According to the IPCC, "progress on the alignment of financial flows towards the goals of the Paris Agreement remains slow" and "public and private finance flows for fossil fuels are still greater than those for climate adaptation and mitigation".[6] It further pointed out that we are on track for 3.2°C warming of the planet by the end of this century and "increased actions must begin today not tomorrow, otherwise we will continue to sleepwalk a climate catastrophe" as UNEP-FI's Executive Director Inger Andersen has put it.[7] The United Nations Environment Programme (UNEP) points out that over 7 times more effort than current commitments for 2030 must be made to reach the 1.5°C target.[8]

Although the SMBC Group's commitment to its portfolio-wide net zero target by 2050 represents a crucial step, it alone does not ensure that the company is on track to achieve it. This long-term target can be only credible when combined with short- and medium-term targets.

As UNEP's Emissions Gap Report 2019 indicated, short- and medium-term targets are especially crucial. According to the report, we need a 7.6% annual emissions reduction between 2020 and 2030 to stay below 1.5ºC warming. It also emphasized that annual reductions by 2025 are especially crucial because if we delay, "the steeper and more difficult the cuts become," and "by just 2025, the cut needed will be 15.5% each year, making the 1.5°C target almost impossible."

While SMBC Group has made commitments to set interim targets through the NZBA, these only apply to lending, and only include targets from 2030 onwards.

In October 2021, the G20 Task Force on Climate-related Financial Disclosures (TCFD) publicized new guidance metrics, targets and transition plans as it became more aware of investors' increasing focus on

[4] UNFCCC, *Decision -/CP.26 Glasgow Climate Pact*, November 2021
[5] IPCC, *IPCC Sixth Assessment Report*: Mitigation of Climate Change, April 2022
[6] IPCC, *Mitigation of Climate Change: Summary for Policymakers*, April 2022
[7] IPCC, *Press Conference on Climate Change 2022: Mitigation of Climate Change*, April 2022
[8] UNEP, *Emissions Gap Report 2021*(2021)

assessing companies' transition plans to achieve a net zero target. It points out that to be effective, "any medium- and long-term targets should have interim targets set at appropriate intervals (e.g., 5-10 years) covering the full medium or long-term target time horizon". [9] The TCFD update also includes setting a reduction in Scope 1, 2 and 3 targets as an example of quantified climate related targets.[10]

Climate Action 100+ is an investor initiative of 700 investors representing $68 trillion in assets, seeking to engage with companies to take action to reduce greenhouse gas emissions in line with the Paris Agreement.[11] It assesses companies on their short term (up to 2025), medium term (2026 to 2035) and long term (2036 to 2050) GHG reduction targets.[12]

The Net Zero Investment Framework of the Paris Aligned Investment Initiative, a global collaboration supported by four regional investor networks – AIGCC (Asia), Ceres (North America), IIGCC (Europe) and IGCC (Australasia), lists "Short & medium term emissions reduction targets" and "quantified plan to deliver targets" as key metrics.[13]

These initiatives underscore the fact that investors expect short and medium emissions reductions targets in order to better evaluate the company's ability to manage down its climate risk.

## (2) SMBC Group needs to disclose the measures it is taking to align with the Paris Agreement and the global goal of net zero by 2050, as its current policies and actions demonstrate that it is expanding fossil fuel supply, contrary to those goals.

The International Energy Agency's (IEA) landmark Net Zero by 2050 scenario finds there is no need for investment in any new oil, gas or coal supply if global energy sector emissions are to reach net zero by 2050.[14] Additionally, the scenario requires no new LNG export projects and the full decarbonization of electricity sectors by 2035 in OECD countries and by 2040 in all countries, phasing out completely from coal by 2030 and by 2040 at latest, respectively. [15]

The UNEP FI also pointed out that "the swiftest way to ensure (1.5°C) alignment (with no/low overshoot) is, therefore, to transition fossil fuel-based energy to renewable energy as soon as possible and cease the construction of any new fossil fuel capacities".[16]

Yet SMBC Group's response to climate change has been inadequate and therefore poses a significant risk to investors. Please see the details of the issues of its policy and practice in light of IEA's NZE scenario.

[9] TCFD, *Guidance on Metrics and Targets and Transition Plans*, October 2021
[10] *Ibid.*
[11] Climate Action 100+, *The Three Asks*
[12] *Ibid.*
[13] Paris Aligned Investment Initiative, *Net Zero Investment Framework 1.5°C*, March 2021
[14] IEA, *Net Zero by 2050*, May 2021
[15] IEA *Net Zero by 2050 report*; *World Energy Outlook 2021* and *associated dataset*
[16] UNEP FI, *Recommendations for credible Net-Zero commitments from financial institutions*, October 2021

**Table 1: Comparison among the Group's Policy, Practice and the IEA's Net Zero scenario**

<table>
<tr><th>NZE2050 conclusions[17]</th><th>SMBC Group policy</th><th>SMBC Group practice</th></tr>
<tr><td>No new coal power<br>"No new final investment decisions should be taken for new unabated coal plants [as of 2021]."<br><br>Emissions reduction target from power sector<br>Absolute emissions from power generation fall 57% from 2020-2030.</td><td>Loopholes such as CCUS and mixed-combustion technologies, and no restriction on clients actively building new or expanded coal power plants allow significant continued finance for the coal power sector throughout this critical decade.<br><br>The bank has no target to reduce the bank's financed emissions from the power sector for 2025 or 2030.</td><td>SMBC Group is the world 3rd bank which has provided loans for the global coal industry ($20.4 billion, January 2019-October 2020), including:<ul><li>Kyusyu Electric Power, the fifth biggest electricity provider in Japan, is involved in a new 2GW LNG power plant at Sodegaura. The company is also involved in the IPP business of numerous overseas gas-fired power plants in the Philippines, Mexico, Vietnam and Singapore.</li><li>Adani Group, which plans to double its coal-fired power capacity to 24 GW, more coal power capacity than all of Australia;</li><li>PLN (Indonesia), which along with its subsidiaries, affiliated entities, associates and joint ventures, is planning at least 5.9GW of new coal plants.</li></ul></td></tr>
<tr><td>Coal phase-out target<br>"Phase-out of unabated coal in advanced economies by 2030" & "Phase-out of all unabated coal power plants by 2040."<br><br>No new coal mining<br>"No new coal mines or mine extensions are required."</td><td>SMBC Group's current target to "phase-out by 2040" is only applicable to coal power project financing and does not include corporate financing which consists of much of its exposure to coal power. It does not have a geographical approach to distinguish between advanced and emerging economies.<br><br>Current policy restricts the MountainTop Removal method only but it presented its intention to update its policy in May 2022, to ban new and expansion of coal mining projects and related infrastructure projects.[18] However, it is more likely not to apply to corporate financing which allows SMBC Group to continue financing coal expansion through coal mining companies.[19]</td><td>Financing companies pursuing new or expanded coal mines, such as:<ul><li>Lending AU$115 million to Australian Whitehaven Coal in 2020, which plans to spend around AU$2 billion (approximately US$1.4 billion) on three new coal mines and expansions. These proposed projects have marketable coal reserves of almost 500 million tonnes and could see Whitehaven's coal production more than double by 2030.</li><li>US$713million loaned (2006-2021, including participation in a 2021 US$400 million loan) to Adaro Energy Indonesia, which has stated an intention to ramp up coal production beyond its current rate of 50 million tonnes per year. By independent analysis, Adaro Energy has a business plan aligned with a catastrophic 5-6°C of global warming.</li></ul></td></tr>
</table>

[17] NZE2050 statements and data from: IEA *Net Zero by 2050 report*; *World Energy Outlook 2021* and *associated dataset*
[18] SMBC Group, *Enhancement of Initiatives for Sustainability*, April 2022
[19] For example, New Hope Coal and Whitehaven Coal (Australia), and Adaro Energy (Indonesia).

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|---|---|---|
| **No new oil and gas development**<br>"Beyond projects already committed as of 2021, there are no new oil and gas fields approved for development in our pathway… Also not needed are many of the liquefied natural gas (LNG) liquefaction facilities currently under construction or at the planning stage."<br><br>**Absolute emissions reduction targets for oil and gas sectors**<br>Absolute emissions from oil and gas fall by 23% from 2020-2030 (oil 27%, gas 17%). | There is no policy that restricts financing for new oil and gas projects and companies active in such sectors, which allows SMBC Group to continue financing these sectors throughout this critical decade and beyond. SMBC Group has put in place sector policies of "Oil Sand", "Shale Oil and Shale Gas", "Oil and Gas Mining Projects in the Arctic" and "Oil and Gas Pipelines" but they only require enhanced due diligence of environmental and social risk assessments of those projects, which allow banks to continue financing in such oil and gas sectors.<br><br>No absolute emissions reduction targets for oil and/or gas. | SMBC Group provided a total of approximately $109 billion in the global fossil fuel sector (between 2016 and 2021). **34%** of these funds were provided to the top 100 companies expanding fossil fuels. SMBC Group is especially active in **the LNG sector which the Group ranked the world 4th**, and oil and gas in **the Arctic region which it ranked the world 8th**, exceeding other Japanese banks.<br>Recent examples of continued financing of oil and gas companies and projects demonstrably misaligned with net zero by 2050 include participation in:<br>● SMBC Group is involved in highly controversial projects such as the East Africa Crude Oil Pipeline (EACOP) where SMBC is serving as one of the financial advisors. Between 2016 and 2020, the bank provided $1.08 billion in finance for the project owner Total. While Mizuho announced it will not be involved in the project unless the ongoing social and environmental issues are solved, SMBC's involvement has been severely criticized.<br>● SMBC Group is the only Japanese commercial bank with known involvement in proposed LNG power projects in Bangladesh and Vietnam at this stage. It is expected to be involved in funding two LNG projects in Vietnam with 3 GW capacity. SMBC is also the financial adviser of the 1.4 GW Pertamina LNG Power Plant proposed in Bangladesh.<br>● A 2022 $3.5 billion loan related to the Scarborough-Pluto LNG project, which independent analysis has concluded "represents a bet against the world implementing the Paris Agreement". |

Furthermore, according to a report, SMBC **ranked 1st in terms of the number of fossil fuel projects** it supported under the Equator Principles since 2016.[20] The rampant expansion of fossil fuels that SMBC is facilitating necessitates disclosure of the proactive measures that SMBC Group is taking to ensure that it does not contribute to new fossil fuel supply.

[20] Banktrack, *Equator Compliant Climate Destruction: How Banks Finance Fossil Fuels Under the Equator Principles*, November 2021

### (3) SMBC Group is falling behind peer banks in terms of policy, underscoring the need for further disclosure to show proactive management of climate risk

SMBC Group is also **falling behind its domestic competitors and international peer banks** with policies which are better suited to the management of climate risk. These policies demonstrate that the banks below are taking more positive steps towards meeting their net zero by 2050 commitments.

**Table 2: Examples of other Japanese banks with policies better suited to the management of climate risk**

| **Thematic area** | **Financial institution** | **Policies** (*excerpt of relevant provisions or summary by the authors) |
|---|---|---|
| Coal | MUFG[21] | “For extending credit to customers in the power sector, we newly set a target to reduce the balance of corporate finance for coal-fired power generation to zero* by FY2040.”<br>* Projects that contribute to the transition toward a decarbonized society are excluded following the MUFG Environmental and Social Policy Framework. |
| Transition risk associated with fossil fuel sectors | Mizuho[22] | “Companies whose primary businesses are in <u>coal-fired power generation, oil-fired power generation, gas-fired power generation, coal mining, and/or other oil and gas operations</u> may be exposed to transition risk if they do not take appropriate measures for the transition to a low-carbon society. At Mizuho, we are undertaking engagement with clients to ensure they make progress on addressing transition risks associated with climate change. In undertaking such engagement with our clients, <u>if a client does not make progress on addressing their transition risks even after a certain period of time, we carefully consider our transactions with the client</u>.” |
| Medium-term target | MUFG[23] | MUFG set the 2030 target in the (1) “power” and (2) “oil and gas” sectors toward net-zero portfolio emissions in 2050. (1) Reduce from 349gCO2e/kWh in 2019 level to 156-192gCO2e/kWh in 2030. (2) Reduce absolute emissions by 15%-28% in 2030 from 83MtCO2e baseline in 2019. |
| Recognition of Palm oil certification | MUFG[24] | MUFG does "request" clients "to have relevant operations certified by RSPO as well as to publicly commit to No Deforestation, No Peat and No Exploitation(NDPE), when providing financing to the business activities developing and managing palm oil plantations." while SMBC Group admits weak certifications by "an equivalent certifying body" like ISPO and MSPO. |
| Sector | Mizuho[25] | Mizuho covers not only "palm oil" and "large-scale agriculture" but also |

[21] MUFG, *MUFG Progress Report*, April 2022
[22] Mizuho Financial Group, *Strengthening our sustainability action*, May 2021
[23] MUFG, *MUFG Progress Report*, April 2022
[24] MUFG, *Revision of the MUFG Environmental and Social Policy Framework*, April 2022
[25] Mizuho, *Overview of our Environmental and Social Management Policy for Financing and Investment Activities*, March 2021

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| coverage of NDPE policy | | "lumber and pulp". SMBC Group fails to cover the pulp and paper sector. |

**Table 3: Examples of industry-leading sector policies by non-Japanese banks**

| **Thematic area** | **Financial institution** | **Policies** (*excerpt of relevant provisions or summary by the authors) |
|---|---|---|
| Coal | Crédit Mutuel[26] | Crédit Mutuel entities will refuse all operations defined within the scope of application if the exclusion thresholds listed below are not respected:<br>● Annual coal production > 10 million tonnes,<br>● Installed coal power capacity > 5 GW.<br>● Coal share of revenue > 20%,<br>● Coal share of power production > 20%.<br>These non-cumulative exclusion thresholds will be revised downwards annually in order to ensure a gradual and total phase-out of coal activities by 2030.<br>Moreover, Crédit Mutuel will not interact with companies developing new coal capacity (the 417 companies identified on the Global Coal Exit List - GCEL, 2019 version). |
| Oil & Gas | La Banque Postale[27] | French bank La Banque Postale has set an international precedent by committing to both ruling out all oil and gas companies listed in the Global Oil and Gas Exit List, as well as a total phase out by 2030.<br><br>Projects: Exclusion of financial services dedicated to upstream and midstream[28] oil and gas projects, and exclusion of oil-fired & gas-fired power plants.<br>Expansion: Exclusion of all companies listed in the Global Oil & Gas Exit List.<br>Phase-out: Has announced a phase-out strategy from oil and gas upstream and midstream activities by 2030 / exclusion of all companies with oil and gas expansion plans. |
| No Deforestation | ABM Amro[29] | ABM Amro sets a minimum requirement of NDPE policy for seven commodities including palm oil and pulp & paper. Especially for the palm oil sector, ABM Amro applies the minimum requirements not only to producers but also to processors. |

[26] Crédit Mutuel, Our Sector Policies: Coal Sector
[27] Reclaim Finance, Oil and Gas Policy Tracker
[28] Oil and Gas Policy Tracker defines upstream activities as "exploration, development, production" and midstream activities as "pipelines, LNG terminals, other transport infrastructure (including transportation vessels) and storage infrastructure".
[29] ABM Amro, Summary Sustainability Requirements: Summary - Agri-Commodities

### (4) Engagement with SMBC Group has not provided assurance of necessary disclosure

The co-filers have respectively engaged with SMBC Group over several years on its financing of fossil fuels and deforestation and its governance of climate-related risks. The co-filers have also raised these issues through the publication of reports and writing letters to the bank on its environmental policy and specific carbon-intensive projects and sectors it has financed, with a particular focus on the coal, oil and gas, and deforestation risk sectors. The co-filers have further engaged with SMBC Group on its disclosure of climate-related risks and other TCFD reporting. We have also conducted intensive engagement with the company for the last a few months before filing the shareholder proposals.

While the company has shown a willingness to engage on these issues, the engagement has not sufficiently raised hopes that the company is committed to formulating and disclosing a business plan, including short- and medium-term targets, aligning its financing and investments with the goals of the Paris Agreement or taking proactive measures to ensure that its lending and underwriting is not inconsistent with the IEA's net zero emission scenario and the UNEP FI's recommendation to G20. While we recognize that SMBC Group has made some progress on its strengthening of the climate-related governance, targets and policies (including coal mining sector policy), and is willing to do so in the future, it is not the scale and urgency the climate science warns us to prevent catastrophic consequences. Its policies and practices are still far from aligned with the goals of the Paris Agreement. Unless there is a significant strengthening of measures, we believe SMBC Group's financial risk will remain extremely high.

As such, the co-filers have decided to submit the shareholder proposals to SMBC Group.

**The co-filers of these proposals ask investors to vote for the proposals at the 2022 General Meeting of Shareholders of SMBC Group and advise SMBC Group and the broader public of this intention. At this time, we urge investors to engage with SMBC Group and request the publication of concrete measures to reduce the risks from financing and investments that are not aligned with the Paris Agreement.**

## 2. Shareholder Proposals and Objectives

### (1) Content of the Proposals

*The contents of the shareholder proposals submitted by the co-filers are as follows:*

**Proposal 1**

Partial amendment to the Articles of Incorporation (Setting and disclosing short- and medium-term greenhouse gas emissions reduction targets consistent with the goals of the Paris Agreement)

**Proposal details**

The following clause shall be added to the Articles of Incorporation:
Chapter X: "Shift to Decarbonized Society"
Clause Y: "Setting and disclosing short- and medium-term GHG emissions reduction targets consistent with the goals of the Paris Agreement"

1. To promote the long-term success of the Company, given the risks and opportunities

associated with climate change, and in accordance with the Company's commitment to the Paris Agreement on climate change, the Company shall set and disclose a business plan with short-term and mid-term greenhouse gas emissions reduction targets across its overall investment and loan portfolio aligned with Article 2.1(a) of the Paris Agreement (the "Paris goals").

2. The Company shall report on its progress against such targets in its annual reporting.

**Reasons for proposal**

This proposal aims to maintain and increase the Company's corporate value, by appropriately managing the Company's exposure to climate change risks, and ensuring information transparency through setting and disclosing business plans aligned with the Paris Agreement goals, including short-term (by 2025) and medium-term (by 2030) greenhouse gas emissions reduction targets across its entire investment and loan portfolio.

To align with the 2050 net zero goal set by the Japanese government and the Company's own goal of net zero emissions across its entire loan and investment portfolios, it is imperative to set concrete short- and medium-term targets and develop compatible business plans. Disclosing its progress against such targets annually will ensure the Company's financing activities are consistent with these goals.

By adding this clause to the Articles of Incorporation, the Company can effectively manage exposure to climate change risks, align with its long-term net zero goal and promote sustainable growth.

**Proposal 2**

Partial amendment to the Articles of Incorporation (Financing consistent with the IEA's Net Zero Emissions Scenario, etc)

**Proposal details**

The following clause shall be added to the Articles of Incorporation:
Chapter X: "Shift to Decarbonized Society"
Clause Z: "Financing consistent with the IEA's Net Zero Emissions Scenario, etc."

Acknowledging the Company's support for the goal of net-zero emissions by 2050, and in accordance with both the Environmental Program Finance Initiative (UNEP FI) recommendations to the G20 Sustainable Finance Working Group and the International Energy Agency (IEA)'s Net Zero Emissions by 2050 Scenario, the Company shall set and disclose proactive measures to ensure the proceeds of the Company's lending and underwriting are not used for the expansion of fossil fuel supply or associated infrastructure.

**Reasons for proposal**

The purpose of this proposal is to manage the Company's exposure to climate risk appropriately and maintain and improve corporate value. The proposal addresses climate change risk by setting and disclosing measures to ensure that the company's financing activities are not inconsistent with the IEA's net-zero by 2050 emissions scenario and the UNEP FI recommendations to the G20 Sustainable Finance Working Group.

The risks of the IEA scenario are widely recognized, and it is clear from the scenario and climate science that there is no room to develop new oil and gas fields or coal mines, or new infrastructure to facilitate such development if we are to reach the 1.5 °C target of the Paris Agreement.

The Company has set a goal of net-zero greenhouse gas emissions from its entire investment and loan portfolio by 2050, but continues to provide significant funding to facilitate fossil fuel expansion. We propose to add this clause to the Articles of Incorporation in order to manage the Company's exposure to transition risk and to become a financial institution that drives the trend toward a carbon-free society.

### (2) The difference with shareholder proposals to MUFG

These proposals are the third shareholder proposals filed in respect of a Japanese financial institution on the subject of climate risk, following shareholder proposals on Mizuho Financial Group (hereinafter, Mizuho) and MUFG.[30] Similar to the two past proposals, these proposals are not intended to be unduly prescriptive, disclose confidential commercial information, or limit the authority of the company to formulate or change its business strategy. We believe these proposals grant SMBC Group the flexibility to realize these proposals while taking into account client relationships and corporate interests.

The content of the first proposal is similar with the last year's proposal to MUFG in that it requires the formulation and disclosure of a business plan with short- and medium-term portfolio-wide greenhouse gas emissions reduction targets aligned with the goals of the Paris Agreement. This proposal also requests the company to report annually its progress against such targets. The importance of setting short- and medium-term targets and annual reporting against such targets are also in line with the TCFD's new Guidance on Metrics and Targets and Transition Plans.[31]

The content of the second proposal is similar to the other shareholder proposals filed to many financial institutions in different countries (Please see Appendix). This proposal asks the Company to take proactive measures to ensure that the Company's lending and underwriting is not inconsistent with the IEA's net zero scenario and the UNEP FI's recommendations to the G20 Sustainable Finance Working Group. The IEA's scenario has confirmed there is **no room for exploration or development of new fossil fuel supply projects** (coal mines, oil fields and gas fields). As such, development of new infrastructure to facilitate new fossil fuel supply projects is also incompatible with the IEA's scenario. The UNEP FI's recommendations has stated, "A financial institution establishing a net-zero commitment should begin aligning with the required assumptions and implications of IPCC 1.5°C no/low overshoot pathways as soon as possible. This is because the pathways require immediate actions to have a realistic chance of limiting warming to 1.5°C. This would include, for example, **the immediate cessation of any new fossil fuel investments**, and **rapid decommissioning of remaining fossil fuel production** as indicated by the scenarios."[32]

By adding above mentioned clauses into the Articles of Incorporation, the Company can manage its exposure to climate risk appropriately, and maintain and increase its long-term corporate value.

### (3) Format of the Proposals

In Japan, unlike in some countries in Europe and most states in the US, if the target company has a board of directors, a shareholder proposal can be made only with respect to the matters regarding which

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[30] Kiko Network, *Japan's Largest Bank Targeted by Climate Resolution*, March 2021
[31] TCFD, *Guidance on Metrics and Targets and Transition Plans*, October 2021
[32] UNEP FI, *Recommendations for credible Net-Zero commitments from financial institutions*, Oct 2021

shareholders are entitled to vote and make a resolution at a shareholders' meeting under the Companies Act of Japan (the "Act") e.g. disposition of retained earnings; appointment or removal of directors; approval of mergers and divisive mergers; amendments to the Articles of Incorporation; or other shareholder resolution matters under the Articles of Incorporation of the target company (Article 295, Paragraph 2 of the Act). If a shareholder proposal does not fall into any shareholder resolution matter under the Act or the Articles of Incorporation regarding which shareholders have no voting rights at a shareholders' meeting under the Act or the Articles of Incorporation, such shareholder proposal would simply be rejected by the company as unlawful (Article 303, Paragraph 1, limitation proviso in the parenthesis, of the Act).

Therefore, in Japan, the formality of a shareholder proposal for a resolution in which a shareholder can specify the contents of its requirement is normally limited to a proposal to amend its Articles of Incorporation in part. It is clearly a shareholder resolution matter under Article 466 of the Act. Any shareholder proposal that simply states its requirement without using the form of an amendment to the Articles of Incorporation and calls for a shareholder resolution would not be placed on the ballot as an agenda item at the shareholder meeting due to its illegality, unless it falls into a different shareholder resolution matter under the Act or the Articles of Incorporation of the target company. For the reasons mentioned above, these proposals are made legally in the form of an amendment in part to the Articles of incorporation in accordance with the Companies Act of Japan.

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**Appendix: Examples of Similar Shareholder Resolutions**

In many countries, for this AGM season, financial institutions are facing similar shareholder resolutions calling on the companies to align financing with the IEA's Net Zero by 2050 scenario.

At least, six U.S. banks (Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, and Wells Fargo) and two Canadian banks (Bank of Montreal and TD Bank) have faced such shareholder resolutions. [33]

Below are some examples of financial institutions' shareholder proposals in different countries.

| Bank | Country | Content of the proposals |
|---|---|---|
| **Citigroup**[34] | USA | Harrington Investments' shareholder resolution calls on the company to adopt a policy by the end of 2022 committing to proactive measures to ensure that the company's lending and underwriting do not contribute to new fossil fuel supplies inconsistent with fulfilling the IEA's Net Zero Emissions by 2050 Roadmap and the United Nations Environmental Program Finance Initiative recommendations to the G20 Sustainable Finance Working Group for credible net zero commitments. |
| **JP Morgan Chase**[35] | USA | Harrington Investments and Mercy Investment Services's shareholder resolution calls on the company to adopt a policy by the end of 2022 in which the company takes available actions to help ensure that its financing does not contribute to new fossil fuel supplies that would be inconsistent with the IEA's Net Zero Emissions by 2050 Scenario. |
| **ANZ**[36] | Australia | Shareholder proposal coordinated by Market Forces calls on the following: Shareholders note the Company's stated support for the goal of achieving net-zero emissions globally by 2050, along with the publication of the International Energy Agency's Net Zero by 2050 scenario. Shareholders therefore request the Company disclose, in subsequent annual reporting, information demonstrating how the Company will manage its Fossil Fuel exposure in accordance with a scenario in which global emissions reach net-zero by 2050. This information should include:<br>● A commitment to no longer provide Banking and Financing where proceeds would be used for new Fossil Fuel projects; and<br>● Targets to reduce Fossil Fuel exposure consistent with net-zero by 2050. |
| **Standard Chartered** | UK | Shareholder proposal coordinated by Market Forces and Friends Provident Foundation calls on the following: |

[33] ICCR, *Shareholder Proposals Seeking Accelerated Climate Progress will be on the Proxy at All Major North American Banks this Spring*, Mar 2022
[34] Climate Votes, *Harrington Investments' shareholder resolution on Citibank*
[35] ICCR, *Proposal: JPMorgan Chase - Financing Consistent with the IEA Net-Zero 1.5°C Scenario*
[36] Market Forces, *ANZ 2021 resolution, October 2021*

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| **Bank**[37] | | Noting the company's stated support for the goal of achieving net-zero emissions globally by 2050, along with the publication of the International Energy Agency's Net Zero by 2050 scenario,to promote the long-term success of the company, given the risks and opportunities associated with climate change, the company and the directors be authorized and directed by the shareholders to:<br>1. Set, disclose and implement a strategy to manage its Fossil Fuel exposure in accordance with a scenario in which global emissions reach net zero by 2050, including:<br>a. A commitment to no longer provide Financing where proceeds would be used for new or expanded Fossil Fuel projects; and<br>b. Short-, medium-, and long-term targets to reduce fossil fuel exposure consistent with the goal of net zero by 2050, avoiding overreliance on negative emissions technologies.<br>2. Report annually on progress under that strategy, starting from 2022, including a summary of the framework, methodology, timescales and core assumptions used, omitting commercially confidential or competitively sensitive information, and at reasonable cost. |

[37] Market Forces, *Investor briefing: Standard Chartered*, February 2022