

# Mizuho Financial Group

## Top three successes:

1. Commitment to ending financing of new coal-fired power plants and reducing exposure to coal-fired power plants to zero by 2050, the only Japanese bank to make such a commitment.
2. Endorsement of key industry standards (NDPE and FPIC) in revised financing policy for palm oil, lumber and pulp sectors.
3. Publication of debut Japanese and English TCFD reports.

## Background

Mizuho Financial Group has faced allegations from environmental non-profit organisations on its financing of fossil fuels and agribusiness' activities that are linked to deforestation, peatland destruction and illegal labour exploitation especially in Southeast Asia.

As of 31 March 2020, based on the company's disclosure, carbon-related sectors according to definition from the Task Force on Climate-related Financial Disclosures (TCFD) represented approximately 7.3% of Mizuho's total credit exposure<sup>1</sup>. It identified electric utilities, oil and gas and coal sectors as subject to high transition risk, of which the domestic exposure represented roughly 40% of carbon-related sectors. Financing of coal-fired power plants was JPY299bn/US\$3bn, which was estimated to be 0.4% of FY19 total loans and bills discounted.

## Our engagement

EOS at Federated Hermes has engaged with the company's senior executives, including the CFO, the head of investor relations and head of sustainability since 2009. From 2017, we intensified our engagement on environmental-related disclosure and management.

In September 2017, we participated in a collaborative investor initiative on climate change, co-signing a letter to 62 of the world's largest banks including Mizuho Financial Group, to call

## Sustainable Development Goals



Engagement objectives

### Environmental:

Environmental disclosure – TCFD reporting

Climate change strategy

Responsible agribusiness financing

## Company overview

Mizuho Financial Group is the third largest financial services group in Japan, and the sixteenth largest in the world in terms of assets. It has operations in retail and business banking, corporate and institutional, global corporate, global markets and asset management.

for reporting against TCFD recommendations, which include enhanced disclosure of the climate change related risks and opportunities facing financial institutions and how these are managed by boards and senior executives.

Since then, we have exchanged views and recommendations on sustainable financing policies and ESG disclosure with the company's representatives at its headquarters in Tokyo, at Citibank Global Investor Academy's networking in the US, and through conference calls and letters.

<sup>1</sup>Total credit exposure includes loans, foreign exchange assets, acceptances and guarantees, and committed lines of credit.

In early 2020, we wrote to the head of investor relations and the head of sustainability to share emerging best practice and recommendations on climate change, responsible agribusiness financing and other topics. On climate change, we recommended that Mizuho clarify the coal phase-out timeline highlighted by the Powering Past Coal Alliance and incorporate it into the policy related to refinancing of existing coal-fired power plants. We shared the Principles for Responsible Banking (PRB) signatories' net-zero ambition by 2050, and asked it to clarify its strategy and targets in aligning its entire lending and investment portfolio to the Paris Agreement.

On responsible agribusiness financing, we urged it to ask borrowers to commit to the latest standards set by the Roundtable on Sustainable Palm Oil with a no deforestation, no peatland, no exploitation (NDPE) and high carbon stock commitment.

We also supported the climate-related shareholder proposal, the first one faced by Japanese financial institutions, at the annual general meeting in June this year. It did not pass through but gathered a healthy support of 34.5%.

## Changes at the company

On TCFD reporting, Mizuho became the first Japanese financial services group to publish a TCFD report in May 2020. It includes scenario analysis of both physical and transition risks and projected increases in credit costs by 2050. In addition to sector specific financing and investment policies, it emphasises the importance of engagement instead of divestment to influence borrowers' transitions to achieve a low-carbon economy.

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**We have engaged with the company's senior executives, including the CFO, the head of investor relations and head of sustainability since 2009.**

On climate change strategy, in August 2019, the company became a founding signatory of the UN Principles for Responsible Banking. In April 2020, it became the first Japanese bank to stop financing of new coal-fired power plants, regardless of the efficiency of technologies used in any market. It also targets to reduce 50% of its approximately JPY300 billion exposure, entirely composed of project financing, to coal-fired power plants by 2030, and zero by 2050. At the AGM, it announced an encouraging estimation to end its exposure to coal-fired power plants by 2040, which is 10 years earlier than the original timeline. On coal mining, it will not provide financing to projects employing the mountain top removal method. In addition, it set sustainable finance targets of JPY25tn, of which JPY12tn are in environmental finance, from FY2019 through FY2030.

On responsible agribusiness financing, in April 2020, Mizuho mentioned its engagement with borrowers in the palm oil, lumber and pulp sectors on NDPE and free, prior, and informed consent (FPIC) standards for the first time in its environmental and social policy.

## Next steps

On climate change, we will continue to engage on how the estimated increase in credit costs will translate into concrete action and policies to facilitate the transition to a low-carbon economy, as well as its strategy, metrics and targets related to financing the rest of the carbon sectors.

On responsible agribusiness financing, we are encouraging Mizuho to disclose examples of its engagement with its borrowers on meeting the NDPE and FPIC standards. We will also continue to engage on other governance topics, which include executive remuneration, cross shareholdings and responsible use of artificial intelligence and data governance.



**Janet Wong**  
Engagement  
EOS

## Federated Hermes

Federated Hermes is a global leader in active, responsible investing.

Guided by our conviction that responsible investing is the best way to create long-term wealth, we provide specialised capabilities across equity, fixed income and private markets, multi-asset and liquidity management strategies, and world-leading stewardship.

Our goals are to help people invest and retire better, to help clients achieve better risk-adjusted returns, and to contribute to positive outcomes that benefit the wider world.

All activities previously carried out by Hermes now form the international business of Federated Hermes. Our brand has evolved, but we still offer the same distinct investment propositions and pioneering responsible investment and stewardship services for which we are renowned – in addition to important new strategies from the entire group.

## Our investment and stewardship capabilities:

- **Active equities:** global and regional
- **Fixed income:** across regions, sectors and the yield curve
- **Liquidity:** solutions driven by four decades of experience
- **Private markets:** real estate, infrastructure, private equity and debt
- **Stewardship:** corporate engagement, proxy voting, policy advocacy

## Why EOS?

EOS enables institutional shareholders around the world to meet their fiduciary responsibilities and become active owners of public companies. EOS is based on the premise that companies with informed and involved shareholders are more likely to achieve superior long-term performance than those without.

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