BlackRock

Investment Stewardship

Vote Bulletin: Mitsubishi UFJ

Company	**Mitsubishi UFJ Financial Group, Inc. (JP: 8306; NYSE: MUFG)**
Market and Sector	Japan, Financials
Meeting Date	29 June 2021
Key Resolutions[1,2]	**Item 3:** Partial Amendment to the Articles of Incorporation – Disclosure of a plan outlining the company's business strategy to align its financing and investments with the goals of the Paris Agreement (shareholder proposal)
Key Topics	Climate-related risks and opportunities; corporate governance and business strategy
Board Recommendation	The board recommended voting AGAINST the shareholder proposal
BlackRock Vote	BlackRock voted AGAINST the shareholder proposal

Overview

Mitsubishi UFJ Financial Group, Inc. (MUFG) is one of the world's largest financial institutions, with operations in more than 50 countries. It divides its operations across six business groups: four groups for combinations of Japanese, non-Japanese, Retail/SME, and Large Corporates, in addition to Asset Management & Investor Services and Global Markets. [3]

BlackRock Investment Stewardship (BIS) has engaged extensively with the company's Board of Directors, management, and sustainability teams to discuss corporate governance and sustainability issues we believe can help drive long-term shareholder value. These discussions have addressed topics such as MUFG's climate policies, including its annually updated Environmental and Social Policy Framework.[4] We have also discussed MUFG's corporate governance profile, in particular, board composition and effectiveness, business oversight and risk management, and corporate strategy and culture.

As described in the BIS Global Principles, as well as the corporate governance and proxy voting guidelines for Japanese securities, when assessing shareholder proposals, we evaluate each proposal on its merit, with a singular focus on its implications for long-term value creation. We consider the business and economic relevance of the issue raised, as well as its materiality and the urgency with which it should be addressed. We also take into consideration the legal effect of the proposal as shareholder proposals may be advisory or legally binding, the latter being the case in the Japanese market.

[1] MUFG. "Notice of Convocation of the Annual General Meeting of Shareholders." 8 June 2021. Page 32.
[2] MUFG. "Supplementary Explanation of Our Position on the Third Item of Business to Be Submitted to the 16th Annual General Meeting of Shareholders." 7 June 2021.
[3] MUFG. "Global Network" and "Corporate Profile – We are MUFG in the Americas" and "Businesses and Network."
[4] MUFG. "MUFG's Sustainability Management Climate Change Initiatives." 3 June 2021. Page 6.

Rationale for BlackRock's Vote

Item 3: Partial Amendment to the Articles of Incorporation (Disclosure of a plan outlining the company's business strategy to align its financing and investments with the goals of the Paris Agreement)

While we agree with the spirit of the proposal, BIS ultimately voted AGAINST it due to the potential consequences that could result from the legally binding nature of a proposal seeking to amend the Articles of Incorporation (AOI) of a Japanese company. We believe the company is making reasonable progress in addressing and disclosing climate-related risks and opportunities, including reporting in line with the Task Force on Climate-Related Financial Disclosures (TCFD) framework. We believe MUFG is moving in the right direction, however we expect its climate initiatives, and its sustainability disclosures overall, to further improve.

In March 2021, the Japanese non-profit organization, Kiko Network – along with Market Forces, Rainforest Action Network, and 350.org Japan – submitted a shareholder proposal requesting MUFG "to adopt and disclose a plan to align its financing and investments with the goals of the Paris Agreement."[5] According to the proponents, "the aim of the proposal is to ensure that investors are able to properly evaluate the climate risk of MUFG's financing and investments and make investment decisions accordingly, and to maintain and improve MUFG's corporate value by reducing the bank's exposure to climate risk."[6]

The proponents based the filing of the proposal on "the absence of a policy by MUFG to minimize its exposure to climate related risks."[7] The proposal asks that the company amend its AOI to include the following clause: "The company shall adopt and disclose in its annual reporting a plan outlining its business strategy, including metrics and short-, medium-, and long-term targets, to align its financing and investments with the goals of the Paris Agreement."[8]

BIS evaluated this proposal from two perspectives:

1) Whether we agree with the spirit of the proposal and considered it reasonable, and

2) Whether MUFG should act with greater urgency to address climate risks and opportunities. [9]

***On whether we agree with the spirit of the proposal and consider it reasonable*: BIS agrees with the proposal's general intent to enhance MUFG's reporting of its climate action plan. However, we were concerned about the potential consequences that could result from the legally binding nature of the shareholder proposal to amend the company's AOI.**

BIS assesses proposed changes to a company's AOI in the context of our market-level voting guidelines. We would support changes that enhance shareholder rights or protect shareholder interests in the governance of a corporation.

Under the Companies Act of Japan, Articles 355 and 423, a violation of a company's AOI by the directors is treated in the same way as a violation of laws, whereby the directors could be personally "liable for damages arising as a result thereof."[10]

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[5] "Shareholder Proposal for the 16th Annual General Meeting of Shareholders of Mitsubishi UFJ Financial Group." Explanatory material for investors. 29 March 2021.
[6] See footnote #5.
[7] See footnote #5.
[8] See footnote #1.
[9] Market Forces also filed a climate-related shareholder proposal at Sumitomo Corp.'s 2021 annual general meeting. As in the case of MUFG, the shareholder proposal asked Sumitomo to adopt and disclose a plan to align with the Paris Agreement. BIS voted AGAINST the shareholder proposal given its prescriptive language stemming from amending the AOI. BIS also considered that the company has demonstrated sufficient progress in terms of its climate-related policies and disclosures.
[10] Japanese Law Translation. "Companies Act (Part I, Part II, Part III, and Part IV)."

Therefore, in practice, it is generally considered inappropriate to include a clause aimed at defining matters related to a company's execution of its business – including disclosure related to business execution. As the resolution would be legally binding in Japan, this could pose significant risks, particularly if the language in the AOI is imprecise and ambiguous.

When we believe companies are not addressing material business risks with the necessary urgency, we would usually vote against the re-election of directors for not acting in shareholders' interests, rather than support a proposal to amend a company's AOI. Voting against directors sends a clear signal of concern and is an effective tool to encourage a company to adopt sound corporate governance and sustainable business practices that can help deliver long-term, sustainable value creation.[11]

On whether MUFG should act with greater urgency to address climate risks and opportunities: **BIS believes that the company has demonstrated reasonable progress in disclosing and addressing climate-related risks and opportunities, measured against both its local and global peers.**

As we set out in our Global Principles, we ask companies to articulate how they are aligned to a scenario in which global warming is limited to well below 2° C. We also encourage companies to have clear policies and action plans to manage climate risks and to realize opportunities presented by the global energy transition. Accordingly, we advocate for companies to disclose the identification, assessment, management, and oversight of sustainability-related risks in accordance with the four pillars of the TCFD framework.

MUFG is one of the leading Japanese banks in terms of TCFD-aligned disclosure. In line with the recommendations of the TCFD framework, MUFG currently discloses its greenhouse gas (GHG) emissions from its own operations and has set metrics and targets to measure progress against its sustainable finance goals.[12]

MUFG has also demonstrated a willingness to make progress, which is evident when compared to many global peers. In May, it announced the "MUFG Carbon Neutrality Declaration," a commitment to achieve net zero GHG emissions in the company's finance portfolio by 2050, and in its own operations by 2030, with plans to announce interim targets in FY2022 and to report on progress at least annually.[13] It will also set targets to align with the goals of the Paris Agreement based on scientific approaches such as those set out by the Science Based Targets Initiative, amongst others.[14]

As part of this commitment, MUFG will become the first bank in Japan to join the Net-Zero Banking Alliance (NZBA) established in April 2021 by the United Nations Environment Programme Finance Initiative (UNEP FI). Moreover, MUFG is evaluating how to best collect scope 3 emissions data for loans and investments, e.g. using global initiatives such as the Partnership for Carbon Accounting Financials (PCAF).[15] Notably in 2020, MUFG became the second largest lead arranger in financing renewable energy projects, for a second consecutive year.[16]

BIS welcomes MUFG's climate-related initiatives and, in our engagements, we encouraged the company to make further efforts to accelerate progress. One specific area where MUFG can consider improvement is with regards to disclosing quantitative information to track progress on key sustainability initiatives. Given MUFG is already committed to enhancing investor communication on this matter, we believe it is moving in the right direction in meeting shareholder expectations on sustainability disclosures.

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[11] For more information on the impact of votes against directors please refer to BIS' special report "Our 2021 Stewardship Expectations."
[12] MUFG. "Responding to Global Warming and Climate Change Based on TCFD Recommendations" and "ESG Data – Reducing Our Environmental Impacts through Core Business."
[13] MUFG. "MUFG Carbon Neutrality Declaration." 17 May 2021.
[14] Initiatives include setting ambitious targets for sustainable finance (increased target from ¥20 Tr [U.S.$183 Bn] to ¥35 Tr [U.S.$320 Bn]; cumulative total from FY2019 to FY2030), enhancing financing policies (revised policies for coal-fired power generation, forestry, and palm oil sectors); incorporating climate change risk into the credit process; and disclosing future credit portfolio reduction targets related to coal-fired power generation (i.e. progressing toward the project finance portfolio reduction target for coal-fired power generation to halve the FY2019 balance by FY2030, and reduce to zero by FY2040). MUFG also aims to disclose the portfolio reduction target for corporate customers whose business largely involves coal-fired power generation. "MUFG Carbon Neutrality Declaration." Page 2.
[15] MUFG. "MUFG's Sustainability Management Climate Change Initiatives." 3 June 2021. Page 15.
[16] MUFG. "Promotion and Dissemination of Renewable Energy."

About BlackRock Investment Stewardship (BIS)

BlackRock Investment Stewardship (BIS) plays a key role in our fiduciary approach. As an essential component of our responsibility to our clients, we engage with companies to advocate for the sound corporate governance and business practices that drive the sustainable, long-term financial returns that enable our clients to meet their investing goals.

Our approach is from the perspective of long-term, minority shareholders in public companies on behalf of our clients. We look to boards and executive management to serve the interests of long-term shareholders and other stakeholders. Our active and ongoing dialogue with the leaders of these companies gives us a valuable perspective on their long-term strategies, financial performance, and the business challenges they face.

As stewards of our clients' assets we have a responsibility to make sure companies are adequately managing and disclosing environmental, social and governance (ESG) risks and opportunities that can impact their ability to generate long-term financial performance — and to hold them accountable if they are not. Engaging with companies is how BIS builds an understanding of a company's approach to governance and sustainable business practices, how we communicate our views, and how we ensure companies understand our expectations. If a company falls short of our expectations and we have been given the authority to vote the company's shares, we would hold them accountable by voting in the best long-term economic interests of those clients that have given us proxy voting authority. As detailed in our Global Principles, proxy voting involves logistical issues which can affect BlackRock's ability to vote such proxies, as well as the desirability of voting such proxies. As a consequence, BlackRock votes proxies on a "best-efforts" basis.

We are committed to transparency in our stewardship practices. Our vote bulletins provide detailed explanations of key votes relating to a range of business issues including ESG matters that we consider, based on our Global Principles, market-level voting guidelines, and engagement priorities, material to a company's sustainable long-term financial performance. We publish select vote bulletins after the shareholder meeting to provide transparency for clients and other stakeholders into our approach to the votes that we believe require more detailed explanation.

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