

Investment Stewardship

Vote Bulletin: Sumitomo Mitsui Financial Group, Inc.

Company	Sumitomo Mitsui Financial Group, Inc. (NYSE: SMFG)
Market and Sector	Japan, Financials
Meeting Date	29 June 2022
Key Resolutions ¹	<p>Shareholder proposal(s):</p> <p>Item 4: Partial amendment to the Articles of Incorporation (AOI) to set and disclose short- and medium-term greenhouse gas (GHG) emissions reduction targets consistent with the Paris Agreement</p> <p>Item 5: Partial amendment to the AOI to set and disclose proactive measures to ensure the company’s financing activities are consistent with the International Energy Agency’s (IEA) Net Zero Emissions Scenario</p>
Key Topics	Climate risk; strategy, purpose, and financial resilience
Board Recommendation	The board recommended shareholders vote AGAINST items 4 and 5
BlackRockVote	BlackRockvoted AGAINST items 4 and 5

Overview

Sumitomo Mitsui Financial Group, Inc. (SMFG) is one of Japan’s three largest banks. SMFG operates as a holding company and provides financial services to clients through the following segments: Commercial Banking, Leasing, Securities, and Consumer Finance. SMFG is headquartered in Tokyo.²

BlackRock Investment Stewardship (BIS) engages with companies to reflect a long-term investor perspective and better understand how company leadership identifies and manages risks and opportunities – including material environmental, social, and governance (ESG) factors – that we believe can impact their ability to deliver sustained financial performance for long-term investors like BlackRock’s clients.

In our multi-year engagements with management, we have often discussed governance and environmental issues such the company’s long-term strategy and their approach to climate-related risks and opportunities. As a company included in the BIS [climate focus universe](#),³ we have also sought to provide a long-term shareholder perspective on how management can continue enhancing climate-related disclosures so that investors, in turn,

¹ Sumitomo Mitsui Financial Group, Inc. “[Notice of convocation of the 20th ordinary general meeting of shareholders](#),” June 8, 2022.

² Sumitomo Mitsui Financial Group, Inc. “[Company overview](#).”

³ The BIS climate focus universe is a list of approximately 1,000 carbon-intensive public companies that represent nearly 90% of the global scope 1 and 2 GHG emissions of BlackRock’s clients’ public equity holdings.

can better understand how SMFG will navigate the energy transition and pursue emerging opportunities over the long-term.

Rationale for BlackRock's vote

Item 4: Partial amendment to the Articles of Incorporation (AOI) to set and disclose short- and medium-term greenhouse gas (GHG) emissions reduction targets consistent with the Paris Agreement (AGAINST)

Item 5: Partial amendment to the AOI to set and disclose proactive measures to ensure the company's financing activities are consistent with the International Energy Agency's (IEA) Net Zero Emissions Scenario (AGAINST)

In our assessment, SMFG's clear and timely disclosures to investors demonstrate that the company is addressing climate-related risks and opportunities in the context of their business model, sector, and geography. In addition, the proposed amendments to the AOI, which are legally binding, are overly prescriptive and risk unduly restricting management's ability to make basic business decisions.

At the June 2022 annual general meeting (AGM), the company received two shareholder proposals requesting partial amendments to SMFG's AOI to then require the company take certain climate-related actions and disclosures. Specifically, the two climate-related shareholder proposals ask that the company:

- Set and disclose a business plan with short- and mid-term GHG emissions reduction targets across the company's overall investment and loan portfolio aligned with Article 2.1(a) of the Paris Agreement.⁴
- Set and disclose proactive measures to ensure the proceeds of the company's lending and underwriting activities do not cover the expansion of fossil fuel supply or associated infrastructure, in alignment with the IEA's Net Zero Emissions by 2050 Scenario, as well as the Environmental Program Finance Initiative (UNEP FI) recommendations to the G20 Sustainable Finance Working Group.⁵

While BIS evaluates every proposal on a case-by-case basis, those filed in Japan often require an additional degree of consideration as they could entail amending the company articles of incorporation (AOI), which would make them legally binding. This introduces a unique degree of personal liability for directors and management. It also creates material legal liability for a company should a proposal pass, particularly if the proposal language is vague or open to interpretation, which could make it harder to determine whether the requests have been met.

As stated in the BIS [Global Principles](#), long-term investors benefit when companies disclose their business plan for how they intend to deliver long-term financial performance through the energy transition, in the context of their business model, sector, and geography. Clear disclosures allow investors to assess how companies are adapting their business models to respond to different transition scenarios.

Upon a close analysis of the company's disclosures, further informed by our engagements with company management, we believe SMFG is addressing climate and transition-related risks and opportunities in a manner appropriate for a company in the financial sector. In particular, the company is pursuing initiatives to become net zero in their groupwide operations by 2030 and across their overall investment and loan portfolio by 2050, in alignment with the Japanese government's "2050 Carbon Neutrality Goal," as well as the goals of the Paris Agreement.⁶ These initiatives include, among others:

- 1) Phase-out financing plans for coal-fired power generation projects: As disclosed in the company's report published September 2021 – which is aligned with the Taskforce on Climate-related Financial

⁴ Sumitomo Mitsui Financial Group, Inc. "[Notice of convocation of the 20th ordinary general meeting of shareholders.](#)" June 8, 2022. Page 30.

⁵ Sumitomo Mitsui Financial Group, Inc. "[Notice of convocation of the 20th ordinary general meeting of shareholders.](#)" June 8, 2022. Page 33.

⁶ In October 2020, the Japanese government declared its intention to become carbon neutral by 2050. To learn more, see: "[Japan's green future.](#)"

Disclosures (TCFD) – SMFG plans to halve financing for coal-fired power generation by FY2030 and aims to achieve a net zero balance by FY2040.⁷ Moreover, in May 2022, the company announced an accelerated strategy, setting a new target of reducing the loan balance of corporate finance tied to facilities to zero by FY2040.⁸

- 2) Mid-term financed emissions reduction targets in the power sector: In May 2022, SMFG announced a new emissions reduction target for the power sector. The company aims to reduce the carbon intensity of the financing they provide to the electricity sector across the loan portfolio by 2030. The target – which is aligned with both the Paris Agreement and the IEA’s net zero scenario for the power sector – covers 90% of the bank’s lending to power sector companies, including general corporate finance.⁹
- 3) Public commitment to set a mid-term financed emissions reduction target for the energy sector: In May 2022, the company disclosed their current financed emissions for the oil and gas and mining sectors. SMFG also committed to incorporate a mid-term reduction target in the next iteration of the company’s TCFD report, to be released August 2022. This schedule is in line with the requirements of the Net-Zero Banking Alliance (NZBA), of which SMFG is a member since October 2021.¹⁰

Given the actions and progress demonstrated by the company to date, as well as management’s commitment to keep shareholders informed on their progress through clear and timely disclosures, BIS did not support the two proposals. In addition, the proposed amendments to the AOI, which are legally binding, are overly prescriptive and risk unduly restricting management’s ability to make basic business decisions.

In the case of the first proposal, the request that the company set short- and medium-term GHG emissions reduction target across all sectors – which may include loans to non-carbon intensive sectors and retail/consumer loans – is, in our assessment, overly prescriptive. In the case of the second proposal, the proponent’s request risks potentially restricting the company’s ability to finance carbon capture, utilization, and storage (CCUS) technologies, as well as ammonia or hydrogen mixed combustion technologies. These technologies may play an important role in an orderly transition to net zero under the IEA’s net zero scenario by 2050. Thus, the proposal may hinder rather than advance SMFG’s decarbonization trajectory, and those of their clients.

We understand that the energy transition presents different challenges and potential rates of change for companies across sectors. Our focus is therefore on engaging with companies regarding how they are managing the transition – and how they are factoring it into their long-term business plans and emissions reduction targets. BIS is encouraged by SMFG’s actions to date, and we will continue to engage with management to further monitor progress against the company’s climate strategy, including how the bank plans to support carbon intensive sectors through financing the development of new technologies that contribute to an orderly transition.

⁷ Sumitomo Mitsui Financial Group, Inc. “[TCFD Report 2021](#).” September 2021. Page 33.

⁸ Sumitomo Mitsui Financial Group, Inc. “[Strengthening efforts against climate change](#).” May 13, 2022.

⁹ Sumitomo Mitsui Financial Group, Inc. “[SMBC Group’s Sustainability Initiatives](#).” May 24, 2022. Page 4, 6.

¹⁰ The NZBA, a network of banks committed to aligning their lending and investment portfolios with net-zero emissions by 2050, requires members to disclose targets for nine carbon intensive sectors within three years. See “[Net-Zero Banking Alliance](#)” to learn more.

About BlackRock Investment Stewardship (BIS)

Our clients depend on BlackRock to help them achieve their investment goals. These clients include public and private pension plans, governments, insurance companies, endowments, universities, charities and ultimately individual investors, among others. Consistent with BlackRock's fiduciary duty as an asset manager, BIS' purpose is to support companies which we invest for our clients in their efforts to create long term durable financial performance.

BIS serves as an important link between our clients and the companies they invest in – and the trust our clients place in us gives us a great responsibility to advocate on their behalf. That is why we are interested in hearing from companies about their strategies for navigating the challenges and capturing the opportunities they face. As we are long-term investors on behalf of our clients, the business and governance decisions that companies make will have a direct impact on our clients' investment outcomes and financial well-being.

We look to boards and executive management to demonstrate that they are taking into consideration the interests of long-term shareholders and other stakeholders. Our, often multi-year, dialogue with the leaders of these companies provides us the opportunity to improve our understanding of, and provide feedback on, the governance and sustainability (ESG) risks and opportunities that are material to their businesses and thus to their ability to generate long-term returns for our clients. For those clients who have given us authority, we vote proxies in their best long-term financial interests, in line with our public [voting guidelines](#) and informed by our analysis of company disclosures and, where relevant, our engagements.¹¹

To support investors' assessment, it is helpful when companies provide timely, accurate, and comprehensive disclosure on all material governance and business matters, including sustainability-related issues. This transparency allows shareholders to better understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or we believe the approach taken may be inconsistent with sustainable, long-term value creation, we will engage with a company and/or vote in a manner that signals our concerns.

We are committed to transparency in the stewardship work we do on behalf of clients. We inform clients about our engagement and voting policies and activities through direct communication and through disclosure on our [website](#). For shareholder meetings where a vote might be of particular interest to clients, we may publish a vote bulletin after the meeting, disclosing and explaining how we voted on key proposals.

Want to know more? blackrock.com/stewardship

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¹¹ 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.