Appropriateness of Allowing Mizuho’s Board of Directors to Determining Dividends from Surplus

At the 15th Ordinary General Meeting of Shareholders of Mizuho Financial Group, Inc. (MHFG; President & Group CEO: Yasuhiro Sato), Shareholders’ Proposal 3 “Partial amendment to the Articles of Incorporation (Organizations that determine dividends from surplus, etc.)” was raised in order to amend the Articles of Incorporation which enables shareholders to make proposals regarding dividends from surplus, etc. at the general meeting. After having carefully discussed and considered the proposal, the Board of Directors of MHFG opposed it. However, it is our understanding that Institutional Shareholder Services Inc. (“ISS”) recommended our shareholders to approve it.

Since 2015, when the same proposal was made by a shareholder, MHFG has taken such proposal very seriously and has continued to give it careful consideration. In addition, even after this years’ shareholder’s meeting, MHFG has continued to discuss and examine the proposal as follows, taking into account the objective of Supplementary Principle 1.1.1 of Japan’s Corporate Governance Code.

First, discussions among only the independent outside directors were held at the “outside director session” held on July 24, 2017, and the views of the independent outside directors were compiled and reported to the Group CEO. Subsequently, at the Board of Directors Meeting held on August 17, 2017, discussions were held again, taking into account the views of the independent outside directors.

Because many of our shareholders followed ISS’s recommendation to approve the shareholder’s proposal, we would like to explain again the view of the Board of Directors of MHFG with respect to ISS’s position and other matters as follows.
1. Developments Related to Authority to Determine Dividends

When MHFG transformed itself into a Company with Three Committees in 2014, MHFG decided that the body to determine dividends from surplus, etc. would be the Board of Directors, not the General Meeting of Shareholders, by providing to that effect in the Articles of Incorporation (the authority vested by such determination shall hereinafter be referred to as the “Authority to Determine Dividends”). This decision was made, as stated below, based on the rationale that capital policies, including dividends, that constitute material managerial matters should be comprehensively determined by the Board of Directors in accordance with management policy.

With respect to Authority to Determine Dividends, a shareholder made proposals for partial amendment of the Articles of Incorporation at the 13th General Meeting of Shareholders (held in fiscal year 2015) and the 14th General Meeting of Shareholders (held in fiscal year 2016). Although the Board of Directors of MHFG opposed these proposals, they were agreed to by shareholders holding 41% and 48% of the voting shares, respectively.

In fiscal year 2016, taking seriously the fact that the shareholder proposal was agreed to by shareholders holding nearly half of the voting shares, MHFG engaged in thorough discussions from the perspective of what would be in the best interests of shareholders, first in a meeting consisting only of independent outside directors, who are capable of considering this matter from the perspective of the shareholders, and then in meetings of the entire Board of Directors. Thereafter, MHFG shared the unified view of the Board of Directors, which includes the independent outside directors.

MHFG gave an in-depth explanation of these views to institutional investors, and also gave an explanation to our shareholders in a booklet titled “The 15th Interim Period Report to Our Shareholders.” In addition, we had several discussions with ISS, which recommended shareholders to approve the shareholder proposal.

At the 15th Ordinary General Meeting of Shareholders (held in fiscal year 2017), the same proposal was made by a shareholder. As some institutional investors changed their opinions after our explanation, the percentage of shareholders who agreed to this proposal decreased from the previous fiscal year to 43%, while ISS again recommended shareholders to approve this shareholder proposal.

Japan’s Corporate Governance Code provides that, in the case of a company that has an adequate governance system, proposing to shareholders that certain powers of the general shareholder meeting be delegated to the board may at times be a rational choice in order to secure agility and expertise in making business decisions (see the background note to Japan’s Corporate Governance Code, Supplementary Principle 1.1.2).
The Board of Directors of MHFG, consisting of members with extensive experience and expert knowledge, has an established system of holding in-depth expert discussions on all matters concerning management (macroeconomics, earnings forecasts, capital regulations, etc.) and, where necessary, obtains advice from the Risk Committee. Additionally, the chairman of the Board of Directors (the “Chairman”) is an independent outside director and both the Nominating Committee and Compensation Committee consist of only independent outside directors, and since June this year, by appointing an independent outside director as the chairman of the Audit Committee, the chairmen of all three committees (i.e., the Nominating Committee, the Compensation Committee and the Audit Committee) are now all independent outside directors. In such a manner, the Board of Directors maintains a strong supervisory function. It is because of this strong governance system that MHFG firmly believes granting Authority to Determine Dividends is in line with the intentions of Japan’s Corporate Governance Code.

This release expresses MHFG’s views on Authority to Determine Dividends, which is the joint opinion of all of MHFG’s Board of Directors, including its independent outside directors, and it also explains the views of MHFG’s Board of Directors regarding ISS’s position that recommended shareholders to approve the shareholder proposal while showing a certain degree of understanding of MHFG’s views.

2. MHFG’s view on Authority to Determine Dividends

MHFG believes that decisions on matters concerning capital policies, including dividends and acquisition of treasury stock, etc., are high-level business decisions that should be the full responsibility of the Board of Directors, made in accordance with management policy. Doing so, in our view, contributes to the enhancement of corporate value in the mid- to long-term and thus maximizes mid- to long-term shareholder benefits.

At the same time, MHFG also believes that in order to allow the Board of Directors to make dividend decisions, there must exist a robust governance system to support decision-making competency from the perspective of shareholders.

Since 2014, when MHFG transformed itself into a Company with Three Committees and fundamentally reformed its governance system, MHFG has made the following efforts to enhance the effectiveness of its corporate governance:

- The Board of Directors makes decisions about material and fundamental management policies, such as the medium-term business plan and annual business plans, having held discussions about such policies from an early stage of their development.
- The Chairman, who is an independent outside director, is deeply involved in the determination and clarification of issues discussed at all meetings of the Board of Directors.
All issues are exhaustively discussed until all directors are satisfied. If all directors are not satisfied, extraordinary meetings of the Board of Directors are held.

- To ensure close communication and foster a feeling of trust between executive officers and independent outside directors, separate meetings among executive officers and independent outside directors are held frequently, in addition to meetings of the Board of Directors.
- Self-assessment of the Board of Directors’ effectiveness is conducted regularly, which includes the results of third-party evaluations.
- Meetings consisting of only independent outside directors are held several times a year to discuss matters such as the operation of the Board of Directors and how the governance system should operate.
- With respect to discussions at the Board of Directors, the Chairman gives an explanation to investors at “Mizuho IR Day”, hosted by MHFG, among other means.

As can be seen above, the Board of Directors of MHFG has in place a robust system to fulfill its fiduciary duties to shareholders.

As strengthening the capital base is one of MHFG’s highest management priorities, we believe that it is more appropriate for us to have the Board of Directors - rather than the General Meeting of Shareholders - discuss capital policies, including dividends from surplus, etc., agilely and in accordance with management policy.

In particular, in order to enrich shareholder returns while enhancing the capital adequacy ratio in a situation that the global financial regulations are being incessantly modified and strengthening of some of them are currently in progress, MHFG, which as a group is identified as a G-SIB (Globally Systemically Important Bank), must discuss and determine capital policies agilely and adeptly based on various types of information, including non-public information, founded upon an appropriate and timely understanding of the environment surrounding business operations.

3. MHFG’s Views as to ISS’s Position

With respect to Proposal 3 “Partial amendment to the Articles of Incorporation (Organizations that determine dividends from surplus, etc.),” which was made at the 15th Ordinary General Meeting of Shareholders of MHFG (held in fiscal year 2017), our understanding is that the report published by ISS as of June 3, 2017 primarily presented the following two reasons for approving the shareholder proposal:

- The ability to submit alternate income allocation proposals will hold management more accountable for efficient capital allocation and restore a right unnecessarily removed when MHFG adopted the three-committee board structure.
- The proposal would help MHFG improve its communication with shareholders by increasing opportunities for shareholders to express their views specifically on dividends, and the board should also benefit from that because it can choose to submit proposals to a shareholder vote.
In response to ISS’s position referenced above, we hold the following beliefs:

(1) Authority to Determine Dividends was vested in MHFG in line with Japan’s Corporate Governance Code, Supplementary Principle 1.1.2, which stipulates that it should be taken into consideration that “delegating certain powers of the general shareholder meeting to the board” “may be desirable from the perspectives of agile decision-making and expertise in business judgment.”

Under Authority to Determine Dividends, it is possible for the Board of Directors to agilely determine dividends and other measures to leverage its capital, taking into consideration all management matters (macroeconomics, earnings forecasts, capital regulations, etc.) and a large volume of non-public information in a timely manner.

In its discussions with ISS, MHFG has repeatedly explained that MHFG’s governance system satisfies the requirement that “the board is indeed adequately constituted to fulfill its corporate governance roles and responsibilities,” as stipulated in Japan’s Corporate Governance Code, Supplementary Principle 1.1.2 and there were no objections by ISS thereto.

If judged in line with Japan’s Corporate Governance Code, Supplementary Principle 1.1.2, Authority to Determine Dividends should be evaluated depending on whether or not it can be said that MHFG’s case “may be desirable from the perspectives of agile decision-making and expertise in business judgment.” In the case of MHFG, it is clear that Authority to Determine Dividends meets this criterion. In fact, not only in the above-mentioned report but also in repeated discussions with us, ISS has not shown any doubts whatsoever regarding this point. Thus, there should be no differences in opinion between ISS and us.

In this regards, MHFG believes that there is no issue with granting Authority to Determine Dividends from a Japanese legal and regulatory (including the Companies Act and soft laws such as Japan’s Corporate Governance Code etc.) perspective.

(2) In addition, as you can understand from this release, with respect to “ensuring accountability” and “communication with shareholders,” in ISS’s position referenced above, MHFG’s Board of Directors and independent outside directors, as well as its management, have been making great efforts to actively disclose information to, and sufficiently exchange opinions with, shareholders. We understand that MHFG has secured an adequate foundation for the management’s accountability and communication with shareholders.
(3) However, in its opinion, ISS made light of the individual and specific circumstances, such as MHFG’s governance system, the objective of Japan’s Corporate Governance Code, Supplementary Principle 1.1.2, the regulatory environment in which MHFG is placed, the quality and quantity of information necessary to determine its dividends and the stance of MHFG’s Board of Directors and independent outside directors on the disclosure of information to shareholders and exchange of opinions with shareholders. MHFG believes that ISS consequently adhered to mechanical and stereotyped overgeneralizations regarding shareholders’ rights from perspectives totally different from substantive discussion developed by MHFG, among other things, stating that “The ability to submit alternate income allocation proposals will ... restore a right unnecessarily removed” and “The proposal would help the company improve its communication with shareholders.”

(4) Approximately 70% of the Companies with Three Committees in Japan grant Authority to Determine Dividends and MHFG is not aware of any case where ISS recommended shareholders to oppose the proposals to appoint Directors by mentioning that the grant of Authority to Determine Dividends is a factor. MHFG believes that, considering the ISS’s course of action regarding its recommendation, which tacitly accepts Authority to Determine Dividends if there are no shareholders’ proposals, and shows its disagreement with it only if there are shareholders’ proposals, such as in our case, we deem the voting recommendation provided by ISS to have limitations.

In the same report, ISS stated that “In line with ISS policy for companies with three committees, we do not have a problem with the board of Mizuho determining the income allocation, but banning shareholders from submitting proposals requires special attention,” and ISS’s recommendation seems to have been determined only based on whether or not there was a shareholders’ right to make proposals with respect to dividends, regardless of the appropriateness of the opinion of MHFG’s Board of Directors, the governance system, or efforts to communicate with shareholders and investors, etc.; thus, MHFG recognizes that ISS doesn’t necessarily make a proper determination taking into consideration regulatory related to each industry and each company’s specific situation.

We sincerely hope that ISS, which is becoming more and more influential in the capital markets of countries throughout the world, will make its determinations regarding its recommendations with respect to the proposals made at a general meeting of shareholders of each company by fully taking into account the individual and specific situation of each company and not by merely mechanically making conventional generalizations.
Each member of the Board of Directors of MHFG recognizes the gravity of being entrusted with the management of MHFG by virtue of being elected to the Board through the general meeting of shareholders each year, and will make every effort in managing MHFG with a strong sense of responsibility to the shareholders by making the most appropriate determination for the mid- to long-term benefits of the shareholders, including with respect to dividends.

We would appreciate the understanding of our shareholders and investors in respect of our views regarding the body to determine dividends from surplus, etc., taking into consideration MHFG’s governance system, compliance with Japan’s Corporate Governance Code and efforts to enhance discussions and communications.

Note: “Japan’s Corporate Governance Code, Supplementary Principle 1.1.2”:

When proposing to shareholders that certain powers of the general shareholder meeting be delegated to the board, companies should consider whether the board is adequately constituted to fulfill its corporate governance roles and responsibilities. If a company determines that the board is indeed adequately constituted, then it should recognize that such delegation may be desirable from the perspectives of agile decision-making and expertise in business judgment.

End of document