Core wording

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 ambition to "reduce financed emissions from [its] portfolio of customers to net zero by 2050 or sooner", the Company and the Directors be authorised and directed by the shareholders to set and publish a strategy and short-, medium- and long-term targets to reduce its exposure[1] to fossil fuel assets on a timeline aligned with the goals of the Paris agreement (the "Paris goals")[2], and starting with coal.

The Company should report on progress against its targets and strategy in its annual report on an annual basis, starting from 2022 onwards, including a summary of the framework, methodology, timescales and core assumptions used. Disclosure and reporting should be done at reasonable cost and omit proprietary information.

(1) Exposure in terms of provision of financial services, particularly project finance, corporate finance and underwriting.
(2) As set out by Article 2.1(a) and Article 4.1 of the Paris Agreement.

Supporting statement

Investors recognise the Company (HSBC hereafter)'s progress on climate change in a number of important areas. HSBC recently committed to "reduce financed emissions from [its] portfolio of customers to net zero by 2050 or sooner, in line with the goals of the Paris Agreement," and to "support customers with between US$750 billion and US$1 trillion of finance and investment by 2030 to help with their transition". These commitments build on the bank's positive reputation for its sustainable finance work. However, the provision of sustainable finance must occur in conjunction with a gradual reduction of exposure to high-carbon assets, on a timeline aligned with the Paris goals.

HSBC's exposure to fossil fuel assets

HSBC has provided more than US$86.5 billion in fossil fuel financing since the Paris agreement was signed. This makes HSBC Europe's second largest fossil fuel financier, and the 12th largest in the world[1].

Investors welcome HSBC's recent commitment "not [to] finance any new coal-fired power plants anywhere globally". Every other top 20 European bank has made a similar commitment. However, the effect of such a policy is limited, as only around 5% of total coal power finance is project finance, the rest being corporate lending and underwriting[2]. HSBC is one of the only mainstream banks in Europe that has not yet instituted a corporate finance exclusion policy for coal power.

In May 2019, a coalition of investors representing US$1 trillion asked the bank to strengthen its coal project and corporate finance policy, and to define a clear, time-bound plan to phase out existing exposure to coal-related assets[3]. Furthermore, the need to "phase out thermal coal power worldwide by set deadlines" was recognized in the 2019 Global Investor Statement on Climate Change, which was endorsed by a group of 631 investors managing over US$37 trillion in assets. More recently, a group of 30 asset owners asserted that no further thermal coal power plants should be financed, insured, built, developed, or planned, and that there should be a phase-out of all unabated existing coal-fired electricity generation in accordance with 1.5°C pathways[4].

A recent report showed that in the 12 months preceding HSBC's net-zero announcement, the bank provided financing to companies heavily exposed to the fossil fuel sector and/or known for lobbying against policy-making on climate change. These include utilities highly dependent on coal and/or working to expand coal-related

[1] https://www.ran.org/wp-content/uploads/2020/03/Banking_on_Climate_Change__2020_vF.pdf
[2] https://banktrack.org/coaldevelopers/
[3] https://shareaction.org/investors-hold-hsbcs-feet-to-the-fire-on-coal/
[4] https://www.unepfi.org/news/industries/investment/u-n-convened-net-zero-asset-owner-alliance-rules-out-new-thermal-coal-investment/

infrastructure (KEPCO, CEZ), and companies working to expand oil sands infrastructure (Enbridge, TC Energy)[5].

In 2017, HSBC was mandated as a top adviser to the Saudi Aramco IPO, a position it maintains.

Investor expectations of HSBC

As a systemically important global bank, the financing and underwriting activities of HSBC will influence whether or not the Paris goals are met. To better appraise the long-term investment proposition, investors need to understand the steps the Company is taking to reduce its exposure to fossil fuel assets in the short-, medium- and long-term, on a timeline aligned with the Paris goals.

HSBC's peers have already started taking more ambitious steps to align their fossil fuel financing with the Paris goals:

- Unicredit recently committed to phasing out its exposure to coal by 2028. The bank has asked its clients to publish "a credible plan for phasing out from the coal business by 2028" by the end of 2021. It will not do business with companies reliant for more than 25% of revenues on coal[6];
- Credit Agricole excludes all companies developing new coal assets. It has asked its clients to publish "a climate-friendly transition path and provide by 2021 a phasing out plan of the coal industry," which should involve a coal exit by 2030 for EU and OECD countries and by 2040 for the rest of the world[7];
- In 2017, BNP Paribas announced it would no longer do business with companies "whose principal business activity is the exploration, production, distribution, marketing or trading of oil and gas from shale and/or oil from tar sands." The bank also ceased financing of projects that are primarily involved in the transportation or export of oil and gas from shale or oil from tar sands[8]; and
- RBS asked its oil major clients to publish credible transition plans by the end of 2021, or the bank will gradually phase out support for these companies[9].

Investors would expect HSBC to introduce robust project and corporate finance restriction criteria and a 1.5°C-aligned engagement policy for its clients in high-carbon sectors. HSBC should set explicit conditions when providing financing tied to net-zero commitments, with clear timelines and milestones for reducing emissions. This will allow the bank to reduce financing of and its exposure to Paris-misaligned activities while scaling up green financing.

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[5] https://shareaction.org/resources/a-detailed-analysis-of-hsbcs-net-zero-ambition/

[6] https://www.unicreditgroup.eu/content/dam/unicreditgroup-eu/documents/en/sustainability/our-vision-of-a-sustainable-bank/policies-and-guidelines/UniCredit-Coal-sector-Policy---summary-(final)---1.1.pdf

[7] https://www.credit-agricole.com/en/pdfPreview/122250

[8] https://group.bnpparibas/en/press-release/bnp-paribas-takes-measures-accelerate-support-energy-transition#

[9] https://www.natwestgroup.com/our-purpose/downloads.html

Investors encourage HSBC to use climate scenarios that do not rely excessively on Negative Emissions Technologies when developing its targets. Investors are concerned that these technologies may not be available in time and at the scale required to avert the worst consequences of climate change. The IPCC special report on 1.5°C states that "Carbon cycle and climate system understanding is still limited about the effectiveness of net negative emissions to reduce temperatures after they peak," adding that CO_2 removal "deployed at scale is unproven and reliance on such technology is a major risk in the ability to limit warming to 1.5°C[10]".

Finally, investors encourage the bank to consider the Just Transition when developing its climate change strategy. Tackling climate change will require the transformation of sectors and economies, with important implications for the global workforce. The Paris Agreement is clear about the need to "[take] into account the imperatives of a Just Transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities". Investors representing more than US $10.2 trillion have expressed support for the just transition[11]. Banks have a key role to play to drive the Just Transition[12].

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[10] https://www.ipcc.ch/sr15/

[11] https://www.unpri.org/download?ac=10382

[12] https://www.lse.ac.uk/granthaminstitute/wp-content/uploads/2020/07/Financing-climate-action-with-positive-social-impact_How-banking-can-support-a-just-transition-in-the-UK-1.pdf