10 March 2021

Noel Quinn and Mark Tucker

Chief Executive and Chair

HSBC

8 Canada Square

London E14 5HQ

Dear Mr Quinn and Mr Tucker,

We are writing to you as the institutional investors that filed a shareholder resolution asking HSBC to publish a strategy and short-, medium- and long-term targets to reduce its exposure to fossil fuel assets on a timeline aligned with the goals of the Paris agreement[1].

We would first like to thank you and the wider team at HSBC for engaging with us on climate change for the last couple of months. We know that we are not the only ones to have engaged with you on your coal policy and exposure to the fossil fuel sector.

We strongly believe it is in shareholders' and the company's own interests to phase out non-Paris aligned financing. Decarbonisation across sectors is expected to accelerate with tightening regulations, which increases credit risks for fossil fuel related financing. This risk needs to be properly priced and reduced by curtailing support for the riskiest activities. Reputational risk arising from HSBC's fossil fuel financing activities also presents a threat to other parts of your business. For example, recent surveys[2] have demonstrated that HSBC's retail client base is largely unaware of these activities and that 14 per cent of customers would be 'very likely' to consider changing banks once presented with information on HSBC's fossil fuel financing track record.

In this context, we recognise and appreciate the steps that HSBC has taken to address our key concerns, by committing to:

- Set, disclose and implement a strategy with short- and medium-term targets to align its provision of finance (covering lending, project finance, corporate finance and underwriting) across all sectors, starting with Oil & Gas and Power & Utilities, with the goals and timelines of the Paris Agreement, as per Articles 2.1a and 4 of the Paris agreement. HSBC will publish 2025 and 2030 targets for its 'Oil and Gas' and 'Power & Utilities' portfolios by the end of 2021 and use 1.5C pathways that are not overly reliant on Negative Emissions Technologies to do so.
- Publish by the end of 2021 a policy to phase out the financing of coal-fired power and thermal coal mining by 2030 in markets in OECD countries, and by 2040 elsewhere.

[1] ShareAction (2021). USD 2.4 trillion investor group files climate resolution at HBSC. Available online at: https://shareaction.org/usd-2-4-trillion-investor-group-files-climate-resolution-at-hsbc/

[2] Deloitte (2020). Making an impact: ESG factors are a priority for customers when choosing a bank. Available online at: https://www2.deloitte.com/uk/en/pages/press-releases/articles/making-an-impact-esg-factors-area-priority-for-customers-when-choosing-a-bank.html & Market Forces (2021). Barclays and HSBC at risk of losing three million customers over continued investment in fossil fuels. Available online at: https://www.marketforces.org.au/barclays-and-hsbc-at-risk-of-losing-threemillion-customers-over-continued-investment-in-fossil-fuels/

- Report on progress against that strategy and policy on an annual basis, starting with the 2021 Annual Report and Accounts, including a summary of the methodology, scenarios and core assumptions used.
- Engage with ShareAction and members of the co-filing group as the bank develops its targets and its new coal phase out policy.

These are important commitments, and we welcome HSBC's leadership in setting them. The focus now must be on putting these plans into practice. We look forward to working with the Board on the development of its targets and plans.

HSBC's coal phase out plan is particularly urgent, given the carbon intensity of the sector, and the vital role that HSBC can play in helping to accelerate a shift away from coal-dependent activities, particularly in Asia. We therefore ask HSBC to publish a clear, timebound plan that includes:

- A prohibition of general corporate financing and underwriting to companies that are highly dependent on coal mining and/or coal power[3], as well as companies planning new coal mines, coal plants and coal infrastructure;
- A commitment to help clients develop, publish and implement coal phase-out plans in line with the 2030/2040 timelines by a specific date and no later than December 2023;
- A commitment to focus on the entire coal supply chain, including coal equipment manufacturers and any other coal supply chain function that contributes to the expansion of coal-related activities.

Whilst we have withdrawn the shareholder resolution this year, we may take further action next year if we are unsatisfied with the bank's progress. In the meantime, we look forward to supporting the Board and executive team as you move forward with delivering on these commitments.

All the best,

Jens Munch Holst
CEO
AkademikerPension

Caroline Le Meaux
Head of ESG Research, Engagement and Voting
Amundi

Luisa Florez
Head of ESG Solutions
La Banque Postale Asset Management

Laura Chappell
CEO

[3] Highly coal-dependent companies are defined as those where over 30% of their revenues or energy mix comes from coal; AND/OR annual production, trading, or consumption of coal exceeds 20 million tonnes annually; AND/OR installed coal power capacity is greater than 10,000 MW; AND/OR the company is planning investments into new coal-related infrastructure.

Brunel Pension Partnership

Emilie Westholm
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