Thank you for giving u the opportunity to comment on the recent *Banking on Climate Change* report, which examines banks' financing of fossil fuels, an industry linked to concerns about climate change and human rights.

As the BHRRC knows from previous correspondence, we share concerns about climate change and have long recognised the role played by fossil fuels. We are intent on playing our part in the transition to a low carbon economy – which is why we committed in 2017 to provide US$100 billion in finance to develop clean energy and lower-carbon technologies by 2025.

Delivering on our commitments

- We are already USD30bn on the way to meet the commitment to provide USD100bn finance between now and 2025 to develop clean energy and lower-carbon technologies.
- *Environmental Finance* magazine has reported that HSBC was the biggest underwriter of sustainability bonds in the first half of 2018 – with bonds issued in Africa, Asia-Pacific and China, the Americas and Europe.
- *Euromoney* ranked HSBC as Asia's best bank for sustainable finance.
- In November 2017 HSBC issued the first benchmark sustainability bond – USD1bn – that highlighted the United Nations SDGs, focussing on seven of the 17 UN SDGs: good health and well-being, quality education, clean water and sanitation, affordable and clean energy, industry, innovation and infrastructure, sustainable cities, and communities and climate action.
- HSBC was ranked third in ShareActions's *Banking on a Low-Carbon Future – a ranking of the 15 largest European banks' responses to climate change* (December 2017).
- We have embedded sustainability into our risk management practices and performance scorecards – for executive directors, these are published in the Annual Report and Accounts.
- We published our first TCFD disclosure in our *Annual Report and Accounts 2017* (February 2018) and provided details on our sustainability governance and executive accountability in the April 2018 ESG Update. Further updates appeared in our 2018 Annual Report and Accounts and this April's ESG update.
- In 2017, we committed to ensuring that 100% of our electricity was sourced from renewable sources by 2030, with an interim commitment of 90% by 2025. Between 2012 and the end of 2018, we contracted up to 29% of our electricity consumption through PPAs in various countries.
- And we collaborate with others: we are a leading member of the UK Government Green Finance task force, the World Economic Forum, the OECD initiative on climate change, United Nations PRI, and several other initiatives.

Climate change and the energy sector

HSBC has long recognised, first, that climate change is real and, secondly, that the two biggest contributors to climate change are deforestation and fossil fuels. In June 20118 our Group CEO, John Flint, announced the HSBC Group's strategic priorities, including: "we aim to be the leading bank to support the drivers of global investment, particularly the China-led Belt and Road Initiative and the transition to a low-carbon economy." I do not propose to cover our restrictions around deforestation in this letter, but would be happy to explain further if it would be helpful.

Our Energy policy is set in the context of 195 countries having committed, under the 2015 Paris Agreement, to restrict global warming to below 2°C. Both the energy sector and the financial sector have a crucial role to play in supporting this ambition, and we recognise that the transition to a low-carbon economy is a multi-year transition. It is generally acknowledged that there has to be a significant and immediate reduction in the use of coal; oil and gas have a longer-term role to play in the transition and represent an important part in the energy mix of many markets.

Developing countries may need more time to adjust than developed ones as countries balance sometimes competing sustainable development goals. This latter point is one that, as a bank that has been in Asia for 150 years, we know particularly well; we are an intrinsic part of many Asian societies and therefore cannot act like other European banks, which do not have the same geographical exposure and experience.

Our 2016 Mining and Metals policy prohibits involvement in new thermal coal mines or new customers dependent on thermal coal mining; the Energy Policy further limits our involvement in coal-fired power plants ('CFPPs') as follows:

Global Businesses **must not provide project financing or general purpose lending** where the majority of such financing is used for:

New coal-fired power plant projects, subject to the very targeted exceptions of Bangladesh, Indonesia and Vietnam in order to appropriately balance local humanitarian needs with the need to transition to a low carbon economy.

Consideration of any such exception is subject to:

(i) **independent analysis** confirming the country has no reasonable alternative to coal;
(ii) the plant's **carbon intensity** being lower than 810g CO_2/kWh; and
(iii) **financial close on the project being achieved by 31 December 2023.**

And HSBC will phase out, by 31 December 2019, its existing lending for the development of new coal-fired power plant projects in high-income countries.

For the avoidance of doubt, HSBC will only provide project financing or general purpose lending relating to CFPPs in Bangladesh, Indonesia or Vietnam **if** there is an independent assessment that there is no reasonable alternative; **and**any involvement must achieve a financial close by the end of 2023. Given the time it takes to bring any infrastructure project to financial close, this time-bound commitment is of great significance.

Where a new CFPP does meet all of these conditions, we require still more due diligence on the project where a customer has a coal-fired portfolio exceeding 3,000MW in generating capacity, plus

(i) plans to develop or acquire new coal-fired power plants in high-income or upper-middle-income countries; or
(ii) an upward trend in the carbon intensity of either its overall or coal-fired portfolio over the last three years.

No new CFPP approvals have been granted by HSBC since the revised Energy policy launch in April 2018.

Together with our other prohibitions, including for new greenfield oil sands projects and offshore oil or gas projects in the Arctic, we are convinced that our Energy sector policy will make a significant contribution to combating climate change by limiting the emission of greenhouse gases. But we are not complacent: the policy will be kept under review and, as the science of climate change evolves or technology develops, we stand ready to reflect those changes.

Promoting positive change

Prohibition of the 'bad' is only one side of the climate change equation. It is also important that the financial sector contributes positively to the transition by helping capital flows go to, for example, the renewables sector. As noted above, our first commitment in November 2017 was of US$100 billion to provide finance to develop clean energy and lower-carbon technologies between now and 2025.

We were also pleased by the positive reception for our $1bn SDG bond; the following comment came from Patricia Espinosa, Executive Secretary of UN Climate Change: "A dramatic expansion in creative financing is going to be crucial for catalysing the transition to a low-carbon, sustainable world. It is happening, but needs to happen with greater urgency, speed and scale. So, congratulations to HSBC for this innovation and its explicit support for the SDGs and the Paris Climate Change Agreement – we look forward to many more financial institutions following suit.'

HSBC's Climate Change Centre of Excellence has long been the top-rated research provider on climate change issues, including highlighting the risk presented by stranded fossil fuel assets to both the asset owners and the finance behind them. Our newly established Centre for Sustainable Finance will augment this with forward-looking, debate-shaping contributions on, for example, unlocking capital, the low-carbon transition, and climate risk and disclosure.

We are proud of the work we have done on both sides of the climate change equation – prohibition of the 'bad' and promotion of the 'good'. We believe that setting clear, measurable, time-bound conditions to our lending activities, together with our ongoing commitment to support our clients in their own transitions to the low-carbon economy, will and already are making a significant contribution.

Yours sincerely,

Brendan McNamara