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Cc: Bob Hoyt (General Counsel)

Dear Mr Quinn

## Special resolution on climate – HSBC Holdings PLC's 2021 Annual General Meeting

ClientEarth is an international non-profit environmental law organisation headquartered in London. Our Climate Finance initiative focuses on the legal implications of climate change-related financial risks and climate impact for a wide spectrum of market participants, including banks, companies, investors, directors, professional advisers and regulators.

As one of the world's leading legal experts on climate finance and as a customer of HSBC in the UK, we are concerned that HSBC is not taking adequate steps to align itself with the goals of the Paris Agreement (**Paris Goals**).<sup>1</sup>

A special resolution on climate change has recently been filed by fifteen institutional and 117 individual shareholders, to be voted upon at HSBC's 2021 AGM (**Resolution**).<sup>2</sup> We understand that the Board of Directors of HSBC is currently deciding how it will recommend investors vote in relation to the Resolution.

We write to you, as a member of the Board of Directors, to remind you of the matters you are required by law to have regard to when making that decision, to satisfy your directors' duties pursuant to the Companies Act 2006 to promote the success of the company.

In light of these considerations, we ask you to recommend that investors vote in favour of the Resolution, and to direct HSBC to take immediate steps to develop a strategy with short, medium and long-term targets to align HSBC's business with the Paris Goals.

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<sup>1</sup> [https://unfccc.int/sites/default/files/english\\_paris\\_agreement.pdf](https://unfccc.int/sites/default/files/english_paris_agreement.pdf)

<sup>2</sup> <https://shareaction.org/usd-2-4-trillion-investor-group-files-climate-resolution-at-hsbc/>

## The Resolution

The Resolution directs HSBC to set and publish a strategy and short, medium and long-term targets to reduce its exposure to fossil fuel assets on a timeline aligned with the Paris Goals, starting with coal, and to report annually on progress.<sup>3</sup>

We are in the defining decade for climate action. The best available science indicates that in order to limit warming to 1.5°C and achieve the Paris Goals, global emissions must decline by 45% from 2010 levels by 2030, and reach net zero by 2050.<sup>4</sup> It is therefore vital for HSBC to develop a strategy to start achieving real and significant reductions to its financed emissions, to demonstrate that it is serious about delivering on its net zero ambition.

As both a customer of HSBC and an environmental law organisation fighting for change in the financial sector, we welcome the recent announcement of HSBC's net zero ambition, including pledges to align its financed emissions to the Paris Goals, to report in line with the recommendations of the Taskforce on Climate-Related Financial Disclosures (**TCFD**), and to work with its customers to support them on their journey to lower carbon emissions.<sup>5</sup> However, in order to be credible, the announcement of HSBC's net zero ambition must be followed rapidly by the development of a Paris-aligned strategy supported by targets.<sup>6</sup> In particular, this strategy must reflect a global phase out of HSBC's support for coal and indicate how it will reduce its other fossil fuel financing.

As such, ClientEarth strongly supports the Resolution.

Climate change is a systemic risk to HSBC's business, as well as to the social, economic and ecological systems on which we all depend. As one of the world's major banks, HSBC is in a strong position to influence the achievement of the Paris Goals, while positioning its business for success.

Taking the actions proposed by the Resolution and transparently reporting against progress is clearly in the best interests of HSBC, your shareholders, employees, customers and the communities you serve. Your directors' duties require and empower you to act. You can and should support this Resolution.

## The Resolution is consistent with your duty to promote the success of the company

As a director of HSBC, you are required by Section 172 of the Companies Act 2006 to act in a way that you consider most likely to promote the success of the company. In doing so, you are required to have regard (among other things) to: (a) the likely consequences of your decisions in the long-term; (b) the desirability of the company maintaining a reputation for high standards

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<sup>3</sup> <https://shareaction.org/wp-content/uploads/2021/01/HSBC-resolution-wording.pdf>

<sup>4</sup> <https://www.ipcc.ch/sr15/chapter/spm/>

<sup>5</sup> <https://www.hsbc.com/who-we-are/hsbc-news/hsbc-sets-out-net-zero-ambition>

<sup>6</sup> ClientEarth has published a set of Principles and Red-lines for Paris Alignment, which can be found here: <https://www.clientearth.org/media/40omeroa/2020-10-16-principles-for-paris-alignment-position-paper-ce-en.pdf>

of business conduct; and (c) the impact of the company's operations on the community and the environment.

These matters have a direct bearing on your legal duties regarding the Resolution. We address each of them below.

## (a) The likely consequences of your decisions in the long-term

### ***Developing a credible Paris-aligned strategy with targets to reduce its exposure to fossil fuel assets is in HSBC's best interests***

Continuing to do business with and provide lending and financial services to companies that are failing to align with the Paris Goals threatens the long-term financial health and stability of HSBC.

Fossil fuel financing has increased year-on-year since the Paris Agreement was signed in 2015, with 35 global banks financing fossil fuels with US\$2.7 trillion since then.<sup>7</sup> However, it is expected that the price of renewables and electricity storage will fall, leading to zero-marginal-cost renewable energy and a loss of investor confidence in fossil fuels.<sup>8</sup>

This is true for less developed countries as well, which account for a significant part of HSBC's business. For example, a report from Carbon Tracker suggests that between 2020 and 2022 it could be cheaper to build new solar PV than to build new coal capacity in Indonesia, Vietnam and the Philippines.<sup>9</sup> Carbon Tracker also found that new wind and solar will be cheaper than 96% of existing coal power by 2030 and that 42% of the world's coal power plants currently run at a loss.<sup>10</sup> It is foreseeable that thermal coal mining and power plants will become uninsurable in the medium-term.<sup>11</sup>

In this context, HSBC will be facing the financial consequences of stranded assets and the likelihood that fossil fuel financing becomes non-performing as the policy response to climate change strengthens globally. This is particularly so if the initial policy response is slower than required to meet the Paris Goals, and therefore necessarily forceful when adopted, in order to make up for lost time.<sup>12</sup>

Additionally, over the long-term, the biggest risks to HSBC's business are not from short-term shocks or stranded assets, but from the systemic economic impacts of climate change, should the Paris Goals not be met. The macroeconomic impacts of climate change will be far-reaching in breadth and magnitude, irreversible and highly dependent on actions taken in the short term, causing trillions in damages.<sup>13</sup> The Bank of England has been clear that if the necessary actions to achieve climate goals are taken too late, these systemic risks could crystallise in the banking sector.<sup>14</sup>

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<sup>7</sup> [https://www.ran.org/wp-content/uploads/2020/03/Banking\\_on\\_Climate\\_Change\\_2020\\_vF.pdf](https://www.ran.org/wp-content/uploads/2020/03/Banking_on_Climate_Change_2020_vF.pdf)

<sup>8</sup> <https://about.bnef.com/new-energy-outlook/>

<sup>9</sup> <https://carbontracker.org/reports/economic-and-financial-risks-of-coal-power-in-indonesia-vietnam-and-the-philippines/>

<sup>10</sup> <https://www.carbontracker.org/42-of-global-coal-power-plants-run-at-a-loss-finds-world-first-study/>

<sup>11</sup> [https://ieefa.org/wp-content/uploads/2019/02/IEEFA-Report\\_100-and-counting\\_Coal-Exit\\_Feb-2019.pdf](https://ieefa.org/wp-content/uploads/2019/02/IEEFA-Report_100-and-counting_Coal-Exit_Feb-2019.pdf)

<sup>12</sup> <https://www.carbontracker.org/reports/handbrake-turn/>

<sup>13</sup> <https://www.ngfs.net/en/technical-supplement-first-ngfs-comprehensive-report>

<sup>14</sup> <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2019/ss319>

By developing a Paris-aligned strategy and setting short, medium and long-term targets to reduce its exposure to fossil fuel assets, starting with coal, HSBC will be taking immediate steps towards mitigating these risks. Seizing the opportunity presented by the Resolution to show leadership and align HSBC's business with the Paris Goals is in the best interests of the bank, now and in the long-term.

## (b) The desirability of the company maintaining a reputation for high standards of business conduct

### ***Further financing for fossils fuels is a significant reputational risk for HSBC***

You will no doubt be aware that civil society and the general public are increasingly mobilising to advocate for strong climate action. Businesses that are viewed to be failing to align their activities with the Paris Goals face increasing commercial, reputational and legal risks. This can be damaging for investor and customer confidence, employee morale and brand perception. For example, a recent survey by Deloitte found that almost half of UK banking customers would move their money if they found out their bank was financing fossil fuels, and more than three fifths would leave their bank if it was linked to any social or environmental harm.<sup>15</sup> Conversely, share price performance and consumer preferences are both strongly influenced by perceptions about a company's positive actions on climate change.<sup>16</sup>

HSBC is conspicuous by its absence from the list of signatories to the UNEP FI's Principles for Responsible Banking,<sup>17</sup> which require a commitment from signatories to align their business strategy with the Paris Goals.<sup>18</sup> Despite this, we acknowledge and support HSBC's announced ambition to align its financed emissions to achieve net zero by 2050 or sooner.

However, in our view, HSBC cannot reasonably claim to be pursuing Paris-alignment unless and until it has supported, adopted and acted upon the Resolution. A decision not to do so risks being seen as inconsistent with earlier announcements and misleading. This would be severely damaging to HSBC's reputation.

### ***A focus on financing the transition to net zero is insufficient***

HSBC has also recently announced an ambition to provide between US\$750 billion and US\$1 trillion of financing and investment over the next ten years to support customers to transition to lower carbon emissions.<sup>19</sup> This is a positive and concrete step to help customers obtain the financing they need to transition to a low carbon future.

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<sup>15</sup> <https://www2.deloitte.com/uk/en/pages/press-releases/articles/making-an-impact-esg-factors-are-a-priority-for-customers-when-choosing-a-bank.html>; see also Market Forces' survey of HSBC and Barclays customers: <https://marketforces.org.uk/wp-content/uploads/2021/01/Market-Forces-Barclays-and-HSBC-Fossil-Fuels-Research-Report.pdf>

<sup>16</sup> [https://www.dbresearch.com/PROD/RPS\\_EN-PROD/PROD0000000000500285/Climate change and corporate %3A Past the tipping po.PDF](https://www.dbresearch.com/PROD/RPS_EN-PROD/PROD0000000000500285/Climate%20change%20and%20corporate%20past%20the%20tipping%20point.PDF)

<sup>17</sup> <https://www.unepfi.org/banking/bankingprinciples/signatories/>

<sup>18</sup> <https://www.unepfi.org/banking/bankingprinciples/>

<sup>19</sup> <https://www.hsbc.com/who-we-are/hsbc-news/hsbc-sets-out-net-zero-ambition>

However, it cannot be considered a substitute for actively reducing HSBC's fossil fuel financing now and throughout this crucial decade for climate action, or for setting a credible strategy for engaging with HSBC's customers to require them to align with the Paris Goals.<sup>20</sup>

Given the growing focus on identifying and challenging 'greenwash', including by regulators,<sup>21</sup> it would be damaging to HSBC's reputation to be seen as promoting its work to finance the transition without taking equally immediate steps to significantly reduce its exposure to fossil fuel assets.

### ***Failure to set a Paris-aligned strategy with targets risks falling behind emerging market practice***

It is clear that the banking sector is now moving beyond the declaration of net zero ambitions and the adoption of lending policies for the most harmful sectors, towards the setting of credible Paris-aligned strategies with short, medium and long-term targets across their businesses.

In this respect, you will be aware of the resolution proposed by the Board of Barclays PLC which passed at its 2020 AGM (**Barclays Resolution**).<sup>22</sup> Regrettably, in light of the vital importance of urgently putting in place a strategy that phases out financing to fossil fuel companies that are not aligned with the Paris Goals, the Barclays Resolution was not as targeted as the other climate resolution filed in 2020 by 11 institutional investors and 100 individual shareholders of Barclays,<sup>23</sup> which we believe the Barclays Board also should have supported in order to show real leadership on climate change. Nevertheless, the Barclays Resolution has incorporated into Barclays' constitution that the bank and its directors are authorised and directed to set, disclose and implement a strategy, with targets, to transition its provision of financial services across all sectors (starting with, but not limited to, the energy and power sectors) to align with the goals and timelines of the Paris Agreement.

This has set an early milestone in the banking sector's path towards the level of climate ambition that is necessary to meet the Paris Goals. It acknowledges that continuing to finance activities that exacerbate climate change is unsustainable and compounds the risks that climate change presents to business and society at large. HSBC must take note of these risks, as well as the legal and regulatory risks of lagging behind emerging market practice.

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<sup>20</sup> For example: before providing financing, require that customers have a Paris-aligned strategy, or agree to adopt one by a prescribed deadline; engage with customers on their Paris-aligned strategies before new financing or re-financing is provided, which may include setting targets or deadlines to achieve their net zero objective; making financing subject to conditions and borrower covenants reflecting the above that link to events of default; and monitoring, enforcing and reporting on customer compliance: see further

<https://www.clientearth.org/media/40omeroa/2020-10-16-principles-for-paris-alignment-position-paper-ce-en.pdf>  
<sup>21</sup> <https://www.fca.org.uk/publication/feedback/fs19-6.pdf> and <https://www.gov.uk/government/news/cma-to-examine-if-eco-friendly-claims-are-misleading>

<sup>22</sup> <https://home.barclays/content/dam/home-barclays/documents/investor-relations/reports-and-events/AGM2019/NOM-2019.PDF> and <https://home.barclays/content/dam/home-barclays/documents/investor-relations/reports-and-events/AGM2019/AGM%202020%20Poll%20results%20RNS.pdf>

<sup>23</sup> <https://shareaction.org/shareholder-resolution-at-barclays-puts-climate-crisis-centre-stage-for-european-banking-sector-in-2020/>

## (c) The impact of the company's operations on the community and the environment

### ***Continued support for misaligned companies undermines Paris Agreement success***

As a result of human activity and the burning of fossil fuels, our planet has already warmed by at least 1°C. The recent unprecedented Australian and US wildfires and UK floods illustrate the catastrophic costs that an increasingly disrupted climate system will have for our communities and environment. Unless we take urgent action, climate hazards will increase dramatically in both frequency and magnitude, causing irreversible damage to the ecological, social and economic systems on which we depend.<sup>24</sup> Furthermore, we write at a time when the coronavirus pandemic is having catastrophic effects on human health, society and the economy across the globe, yet the emergence of new diseases is a climate change-related risk that is expected to be seen more in the future.<sup>25</sup>

As Europe's second largest financier of fossil fuels<sup>26</sup> – providing US\$86.5 billion of financing to fossil fuel companies between 2016 and 2019,<sup>27</sup> nearly US\$8 billion between 2017 and Q3 2019 in loans and underwriting to companies developing coal plants<sup>28</sup> and more than tripling its coal financing since 2016<sup>29</sup> – HSBC is currently funding and underwriting companies whose activities are directly accelerating global temperature rise. In particular, HSBC's coal policy<sup>30</sup> continues to lag behind those of many other European banks and is at odds with the urgent need to phase out coal to be able to achieve the Paris Goals.<sup>31</sup>

In our view, any decision by HSBC knowingly to continue supporting businesses that are failing to adequately reduce their warming impacts makes the bank complicit in the environmental and economic damage they cause. This may be directly relevant for your risk management and due diligence responsibilities under the Senior Managers & Certification Regime (**SMCR**) and the Conduct Rules,<sup>32</sup> the PRA's expectations for banks,<sup>33</sup> the Equator Principles<sup>34</sup> and the

<sup>24</sup> <https://www.mckinsey.com/business-functions/sustainability/our-insights/climate-risk-and-response-physical-hazards-and-socioeconomic-impacts>

<sup>25</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/584281/uk-climate-change-risk-assess-2017.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/584281/uk-climate-change-risk-assess-2017.pdf)

<sup>26</sup> [https://www.ran.org/wp-content/uploads/2020/03/Banking\\_on\\_Climate\\_Change\\_2020\\_vF.pdf](https://www.ran.org/wp-content/uploads/2020/03/Banking_on_Climate_Change_2020_vF.pdf) and [https://www.banktrack.org/article/barclays\\_and\\_hsbc\\_43\\_billion\\_fossil\\_fuel\\_problem\\_despite\\_netzero\\_pledge](https://www.banktrack.org/article/barclays_and_hsbc_43_billion_fossil_fuel_problem_despite_netzero_pledge)

<sup>27</sup> [https://www.ran.org/wp-content/uploads/2020/03/Banking\\_on\\_Climate\\_Change\\_2020\\_vF.pdf](https://www.ran.org/wp-content/uploads/2020/03/Banking_on_Climate_Change_2020_vF.pdf)

<sup>28</sup> <https://coalexit.org/investments-bank-ct?name=hsbc>

<sup>29</sup> From \$240m of bank financing for the 30 top coal power companies in 2016 to £845m in 2019: see [https://www.ran.org/wp-content/uploads/2020/03/Banking\\_on\\_Climate\\_Change\\_2020\\_vF.pdf](https://www.ran.org/wp-content/uploads/2020/03/Banking_on_Climate_Change_2020_vF.pdf)

<sup>30</sup> While HSBC has announced it will not finance new thermal coal mines or new coal-fired power plant projects (with a potential exception if carbon capture and storage technology becomes available and is utilised on a new coal-fired power plant) and has introduced financing restrictions for new clients receiving over 50% of revenues from thermal coal mining, HSBC has no corporate finance restrictions for companies that are highly dependent on thermal coal nor restrictions for companies building new coal capacity or new coal-related infrastructure, for example. See: <https://www.hsbc.com/who-we-are/our-climate-strategy/sustainability-risk>

<sup>31</sup> <https://climateanalytics.org/briefings/coal-phase-out/>

<sup>32</sup> <https://www.fca.org.uk/firms/senior-managers-certification-regime/dual-regulated-firms>

<sup>33</sup> <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/supervisory-statement/2019/ss319> and <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2020/managing-the-financial-risks-from-climate-change.pdf?la=en&hash=A6B4DD1BE45B2762900F54B2F5BF2F99FA448424>

<sup>34</sup> <https://equator-principles.com/>

Organisation for Economic Co-operation and Development (**OECD**) Guidelines for Multinational Enterprises.<sup>35</sup>

As a director of a global bank, you are in a pre-eminent position to adopt a strategic response to these challenges and accelerate the achievement of the Paris Goals. Around the world, governments, investors, businesses and the public are rapidly raising their ambitions – and even more so at the current moment to ensure that the recovery from the coronavirus pandemic enables the building of greener and more resilient economies across the globe. If we are to succeed in preventing the worst impacts of climate change, we must all play our part.<sup>36</sup> We urge you to act in the best interests of the bank, its shareholders and its broader stakeholders by supporting the Resolution and helping prevent the worst impacts of climate change.

## There is significant and growing shareholder support for climate resolutions

It is abundantly clear from the voting results at numerous AGMs in 2020 that there is strong – and growing – support from shareholders for banks to align themselves with the Paris Goals by developing credible Paris-aligned strategies.

- At the Barclays AGM, 99.93% of votes were cast in favour of the Barclays Resolution and 23.95% of votes<sup>37</sup> were cast in favour of the resolution filed by ShareAction and others requiring Barclays to set and disclose targets to phase out the provision of financial services to the energy sector and electric and gas utility companies that are not aligned with the Paris Goals.<sup>38</sup>
- At the Mizuho AGM, 34% of votes<sup>39</sup> were cast in favour of a resolution which called on Mizuho to disclose a plan to ensure its investments align with the Paris Goals.<sup>40</sup> Notably, the two largest international proxy advisors, Glass Lewis and ISS, both recommended shareholders vote in favour of the resolution.<sup>41</sup>
- At the JPMorgan Chase AGM, 49.6% of votes<sup>42</sup> were cast in favour of a resolution requiring the bank to issue a report outlining how it intends to align its lending activities with the Paris Goals.<sup>43</sup>

Many of your largest shareholders are long-term investors with fiduciary responsibilities for their clients' long-term investments, and know that it is imperative that the Paris Goals are met. You should anticipate strong shareholder support for the Resolution and the actions it requires HSBC to take.

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<sup>35</sup> <https://mneguidelines.oecd.org/due-diligence-for-responsible-corporate-lending-and-securities-underwriting.htm>

<sup>36</sup> <https://www.bis.org/publ/othp31.pdf>

<sup>37</sup> Compared to the 75% of votes in favour required for the resolution to pass

<sup>38</sup> <https://home.barclays/content/dam/home-barclays/documents/investor-relations/reports-and-events/AGM2019/AGM%202020%20Poll%20results%20RNS.pdf>

<sup>39</sup> Compared to the 2/3 of votes in favour required for the resolution to pass

<sup>40</sup> [https://www.mizuhogroup.com/binaries/content/assets/pdf/mizuhoglobal/investors/financial-information/stock-information/extra\\_18\\_eng.pdf](https://www.mizuhogroup.com/binaries/content/assets/pdf/mizuhoglobal/investors/financial-information/stock-information/extra_18_eng.pdf)

<sup>41</sup> [https://www.kiconet.org/eng/press-release-en/2020-06-25/Mizuho\\_AGM\\_20200625](https://www.kiconet.org/eng/press-release-en/2020-06-25/Mizuho_AGM_20200625)

<sup>42</sup> Compared to the 50% of votes in favour required for the resolution to pass

<sup>43</sup> <https://www.asyousow.org/press-releases/2020/5/19/jpmorgan-chase-climate-change-resolution>

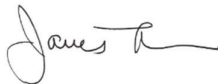
## We urge you to show leadership and formally support the Resolution

Climate change is a systemic risk, which fundamentally threatens the ecological, social and economic systems on which we all rely. These risks will impact your business, your investors, your customers, your employees and the communities that you serve. Supporting the Resolution is vital for HSBC to become a leader when it comes to climate change and to show it is taking credible steps towards achieving its stated net zero ambition. This will help mitigate commercial, reputational and legal risks, and is clearly in the best long-term interests of HSBC. Your directors' duties require and empower you to manage these risks to your business.

We urge you to show leadership and formally support the Resolution.

We would be pleased to discuss the contents of this letter further with you and the Board, as well as our views on what steps HSBC needs to take in order to align itself with the Paris Goals, to mitigate the climate-related financial risks to which it is exposed and to reduce its climate impact.

Yours sincerely,



**James Thornton**

Chief Executive Officer, ClientEarth