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Analysis of HSBC's Coal Policy

In December 2020, ShareAction, 130+ retail shareholders and 15 institutional investors with a combined $2.4 trillion in assets under management (the 'co-filing group') filed a resolution at HSBC, calling on the bank to reduce its exposure to fossil fuel assets, starting with coal, in line with the goals of the Paris agreement[1]. This followed an extensive history of engagement with HSBC on coal and other climate-related issues[2].

Following constructive engagement with ShareAction and the institutional filers, the bank committed to phase out from coal by 2030 in OECD countries and by 2040 in non-OECD countries, and to publish a new coal policy and emission reduction targets covering both lending and capital markets underwriting for its oil and gas and power and utilities portfolios by the end of 2021[3]. ShareAction and the institutional co-filers thus decided to withdraw their resolution to recognise the bank's progress. The group outlined its expectations regarding next steps in in a letter to HSBC's CEO and Chair of the Board, and noted that they would take further action if HSBC failed to deliver on commitments[4]. HSBC's commitments took the form of a special resolution, which passed with 99 per cent of the vote at its 2021 AGM.

After an extensive period of consultation and engagement between HSBC, ShareAction and the institutional co-filing group, HSBC published its long-awaited coal policy. This briefing provides an analysis of HSBC's coal policy across five pillars:

1. Thermal coal expansion
2. Financing restrictions (or lack thereof) for new and existing corporate clients
3. Coal phase out plans and definition
4. Financing restrictions across the value chain
5. Asset Management

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1 https://shareaction.org/news/usd-2-4-trillion-investor-group-files-climate-resolution-at-hsbc
2 See page 9 of this briefing for a full history of ShareAction's engagement with HSBC prior to filing a resolution ahead of the bank's 2021 AGM: https://shareaction.org/reports/hsbc-investor-brief-why-investors-should-back-the-2021-climate-change-resolution-at-hsbc
3 https://www.hsbc.com/-/files/hsbc/investors/results-and-announcements/stock-exchange-announcements/2021/march/sea-210311-climate-resolution-rns.pdf
4 https://shareaction.org/reports/shareholders-writte-to-hsbcs-ceo-noel-quinn-and-chair-mark-tucker

The briefing ends with a list of suggested engagement questions for investors.

HSBC's new coal policy is an important step forward from the bank's previous coal policy, which lagged behind those of its European peers. However, as this briefing demonstrates, it still includes important loopholes. We urge the bank to close them during its 2022 coal policy review.

1. Thermal coal expansion

Throughout the consultation process, the co-filing group emphasised how critical HSBC's position on thermal coal expansion is to the success of the bank's phase-out strategy. HSBC itself recognised that "the expansion of coal-fired power is incompatible with the goals of the Paris Agreement"[i]. The IEA Net-zero Emissions pathway further finds that: "no new coal mines or extensions of existing ones are needed [...] as coal demand declines precipitously" and "no new unabated coal plants are approved for development"[ii]. Considering that this pathway has only a 50 per cent probability of keeping global warming within a 1.5C threshold, these findings should be seen as absolute minimum level of ambition. A credible coal policy should ensure that financing is not provided for additional thermal coal capacity, either directly to a specific asset or to the companies developing these assets.

HSBC's position on thermal coal expansion:

- HSBC will not provide dedicated financing for the creation of new thermal coal mines and new power plants (including new captive facilities), new coal to gas / liquids plants, or for the expansion of existing assets including extensions to their unabated operating lifetime
- HSBC will seek to withdraw financing to clients who expand or commit to expand thermal coal capacity except where expansions result from corporate mergers and acquisitions or for expansions contractually committed or under construction before 1 January 2021, among other exceptions. ShareAction understands that this clause will apply retroactively from the 1 January 2021

HSBC may continue to support groups developing thermal coal capacity

HSBC's policy applies to "clients" but not necessarily to the groups owning these entities. The policy simply states that HSBC "will take into consideration the activities of the client group" and that it would apply to "the extent appropriate and relevant in light of the organisational structure and governance of the client group." This means that HSBC might withdraw financing to a client developing thermal coal but maintain a relationship with the parent company and/or other parts of the wider group to which the entity receiving financing belongs (or continue

a relationship with a group owning an entity developing coal but not receiving financing from HSBC).

The implications in terms of exposure to thermal coal expansion and transition risks could be material. ShareAction welcomes HSBC's commitment to "seek representations from the client group that [its financing] will not be used for such activities", but it would be technically impossible for the bank to determine whether it is indirectly supporting thermal coal expansion. Money is fungible and proceeds can be on-lent via intra-company loans. They can also free up liquidity elsewhere within the group. This should be of particular concern for investors as developments are rarely undertaken by the parent company. For example, in April 2021 HSBC was a Mandated Arranger on a USD400m loan to Adaro Energy, a group currently expanding thermal coal power and mining capacity through different parts of the group[iii]. HSBC's peers were also criticized in July 2021 for arranging a USD300m Sustainability-Linked Bond to Adani Electricity Mumbai, part of the group behind the highly controversial Carmichael Coal mine[iv].

Example of leading practice: Crédit Agricole assesses expansion at the level of each company or group of companies where appropriate[v].

HSBC may continue to support companies expanding thermal coal through inorganic growth

HSBC's policy explicitly excludes thermal coal expansion that results from mergers & acquisitions because they don't lead to a global increase in thermal coal capacity. This caveat has significant implications for HSBC's mining and power portfolios. Beyond temporary boosts in profitability that might benefit fossil fuel companies during the low-carbon transition, some consolidation can be expected in a sector facing a structural fall of global coal use in electricity generation and stranded asset risk under net-zero pathways. ShareAction acknowledges that different companies may decide to transition through different strategies. However, investors should question the credibility of a strategy increasing reliance on thermal coal when the share of thermal coal in the global energy mix is expected to fall significantly over the next two decades. Consolidation, nevertheless, can be compatible with the transition if it comes with clear redlines. This includes requiring clients that expand thermal coal capacity through M&A to manage these assets in accordance with 1.5C pathways and wind them down by 2030 in OECD and 2040 in non-OECD countries at the latest. In April 2021, HSBC participated in a EUR1bn loan to EPH, a Czech energy company notorious for buying old coal power plants and coal mines across Europe and operating them for as long as possible[vi].

Example of leading practice: Crédit Agricole considers acquisition of thermal coal assets as expansion unless the company commits to cease operating the assets within a reasonable period.

HSBC may continue to support a significant pipeline of thermal coal expansion projects

HSBC's commitment to discontinue relationships with companies contributing to thermal coal expansion applies to development plans announced after 1 January 2021 and developments starting after that date only if they had not been already contractually committed. This is a significant step for HSBC considering its geographical footprint. Investors should however question how this approach impacts HSBC's client portfolio and if it can effectively exclude clients currently developing assets and/or with development plans which, if delivered, will take us past the 1.5C threshold HSBC has committed to align with.

Data from Global Energy Monitor shows that the coal power expansion pipeline has shrunk globally. This is particularly striking in OECD countries where the dynamic is now moving towards accelerated retirement of existing assets[vii]. Only five countries in this group – Australia, Colombia, Mexico, Poland, and Turkey – are considering building new coal capacity, and projects still in the pipeline for the first four of these countries are unlikely to proceed. Non-OECD countries are expected to require more time to transition to alternative sources of energy. Yet the coal power expansion pipeline in these countries has also collapsed by around 75 per cent since the Paris Agreement was signed. But ongoing and planned developments in non-OECD countries pose serious risks of temperature overshoot. Taking China as an example – more than 100GW of coal power capacity was permitted or pre-permitted[5] as of July 2020, and more than 90GW as of July 2021. Roughly the same amount was under construction during that period[viii]. Even if HSBC does end up withdrawing financing to clients developing these projects, the policy provides little incentive to abort them as the bank will seek to terminate the financing arrangements "as soon as possible". This could theoretically take a few years until the contractual arrangement expires.

ShareAction acknowledges that HSBC has a large presence in jurisdictions with divergent policies on thermal coal compared to some of its European peers, but the bank is also uniquely positioned to drive change and send strong market signals due its size and reach. Because HSBC envisions a world where no net emissions accumulate in the atmosphere by 2050, it is important to recognise how its financing strategy fits with different government agendas. As stated in the 2021 UN Production Gap Report, "governments' production plans and projections would lead to around 240 per cent more coal [...] than global levels consistent with limiting warming to 1.5C"[ix].

5 Permitted: All necessary environmental approvals have been received but the project has not yet begun construction. Pre-permit development: Plants that are seeking environmental approvals and pursuing other developmental steps such as securing land and water rights

HSBC may not restrict financing for companies replacing existing coal capacity

HSBC now excludes dedicated financing for new thermal coal assets and expansion of existing ones. The bank will also restrict financing to clients involved in "thermal coal expansion". The definition of thermal coal expansion is relatively narrow as it includes the following activities:

- Mining: increase in total tonnage of thermal coal extracted
- Power: increase in net operational thermal coal power capacity
- Coal to gas / liquid production: increase in total tonnage of thermal coal utilised

The bank will not necessarily seek to withdraw financing from clients that are developing new thermal coal assets without increasing total coal capacity. This could happen if an asset is retired and replaced with other asset(s) producing a similar or lower output. For mining, the policy would also disregard new assets that are not operated at full capacity or at a capacity that does not lead to an increase in total tonnage of thermal coal extracted. This should be of particular concern to investors seeking to align with 1.5C pathways. Such pathways clearly indicate that fossil fuel production needs to decline immediately and steeply. HSBC's position seems somewhat incoherent considering that the bank has committed not to directly finance new coal power plants or coal mines.

Example of leading practice: BPCE defines a thermal coal "developer" as a company developing new coal-fired power plant(s) exceeding 300 MW or new thermal coal mines, when the company has made a public announcement or when an application for a building permit has been submitted to the relevant authorities.

HSBC may continue to support thermal coal mining expansion depending on the nature of the mine

HSBC defines thermal coal mines as "mines where more than 30 per cent of either production or the coal reserve is thermal coal, excluding other coal-related activities." The objective of this definition is to filter out metallurgical coal (or coking coal) mines. Metallurgical coal is often used in industrial processes such as steelmaking and subject to different considerations in terms of decarbonisation pathway. Recognising this, many banks have focused only on restrictions for the thermal coal sector and/or have indicated they will set sectoral decarbonisation targets. A few banks (e.g. Lloyds Banking Group) have adopted restrictions for both thermal and metallurgical coal sectors. HSBC can be credited for attempting to provide clarity on the scope of its policy. However, the definition of thermal coal mines it has adopted is problematic for two reasons.

Firstly, while HSBC has transparently communicated what mines will not be covered by the policy, it will be extremely difficult for stakeholders to assess the impact of the policy. Indeed, many metallurgical coal mines can produce thermal coal as a by-product but widely used databases tracking coal (e.g. Global Energy Monitor, Global Coal Exit List) do not provide this level of granularity. Secondly, HSBC will not seek assurances from coal mining companies that the thermal coal portion of "hybrid" mines (which can be significant at 30 per cent) will not expand, regardless of the fact that HSBC considers thermal coal expansion to be incompatible with net-zero by 2050. This position is also at odds with the findings of the IEA Net-Zero Emissions pathway, whereby "demand for coking coal falls at a slightly slower rate than for steam coal, but existing sources of production are sufficient to cover demand through to 2050"[x].

2. Financing restrictions for corporate clients

Corporate thresholds: A job half done

HSBC was one of the very few large European banks not to have implemented corporate finance thresholds until now. Because most energy investments are financed primarily from company balance sheets[xi], simply restricting dedicated financing for assets (e.g. project finance) will not limit the exposure of banks to carbon-intensive sectors like thermal coal. Criteria assessing the extent to which a client is exposed to such sectors are equally important to decide whether the bank will want to proceed with general corporate purpose financing. In March 2021, a group of institutional co-filers of the original shareholder resolution sent a letter to HSBC's Chairman and CEO asking for the bank to enforce financing restrictions based on corporate thresholds[xii]. This request was also set out in an investor letter to HSBC in April 2019[xiii]. Has HSBC listened to investors?

HSBC has responded to investor pressure by taking an important first step: a corporate threshold for EU and OECD markets. The threshold is set at 40 per cent of total revenues from thermal coal initially and will become more stringent overtime (30 per cent in 2025) until the bank phases out its exposure to thermal coal in these markets in 2030. After that date, HSBC will limit its financing to companies deriving no more than 5 per cent of revenues from thermal coal. HSBC will waive these thresholds provided that the financing is directed towards "clean technology or infrastructure as part of the client's transition". This is a welcome yet excessively cautious step considering that:

- Like many of its peers, HSBC relies on the wrong metric to define reliance on thermal coal-fired power activities. Relying on revenues instead of share of coal power production introduces an economic bias whereas reliance and associated transition risk become more disconnected from climate-related considerations.

- While a revenue metric is not strictly comparable to a share of production, the percentage of coal in the energy mix of a vast majority of countries in these jurisdictions is already below 40 per cent and even 30 per cent in most cases[xiv]. Data from the GCEL shows that the impact of the new policy onf HSBC's portfolio would be indeed very limited.

- HSBC does not define "clean technology or infrastructure", which leaves the door open for financing of coal-related activities that are less carbon-intensive yet incompatible with a net-zero by 2050 pathway.

HSBC has decided not to set materiality thresholds in non-EU/OECD countries this time, mainly because it estimates that many companies in these markets face infrastructure, policy and resource obstacles compared to developed market peers[xv]. ShareAction acknowledges that these markets would be subject to different decarbonisation pathways. However, considering that a decline in coal supply is also necessary in these markets to keep global warming within the 1.5C threshold, HSBC could have replicated the approach it is taking for EU/OECD markets using a similar ratchet mechanism and exceptions are allowed for financing used for clean technologies or infrastructure (provided that such technologies are defined).

HSBC has also defined two additional sets of thresholds – one for new relationships and one for new transactions entered with existing clients. Both sets of thresholds seem relatively stringent. In fact, they are equally or more stringent than the thresholds used by the Global Coal Exist List to define overreliance on thermal coal[xvi]. However, the bank will only enforce these thresholds when considering whether it should start a new relationship with a client. For existing clients, the thresholds will simply determine whether a financing transaction needs to go through an enhanced due diligence ("EDD") process by a relevant governance committee. HSBC also allows for an important exception: the additional due diligence will not be required where the financing is specifically provided for activities unrelated to thermal coal.

New clients - thresholds determine whether the bank will enter a new relationship	**Existing clients** - thresholds determine whether a transaction requires EDD / escalation
• **Mining:** either i) thermal coal related revenues are ≥10% of total revenues, or ii) annual thermal coal production >5Mt, or iii) thermal coal, as a by-product from the extraction of metallurgical coal, >15% of total production volumes • **Power:** operational thermal coal power generating capacity is either i) ≥10% of total generating capacity; or ii) ≥3GW • **Coal to gas / liquids:** where coal-related revenues are ≥10% of total revenues	• **Mining:** either i) thermal coal related revenues are ≥20% of total revenues, or ii) annual thermal coal production >10Mt • **Power:** operational thermal coal power generating capacity is either i) ≥20% of total generating capacity; or ii) ≥5GW • **Coal to gas / liquids:** where coal-related revenues are ≥20% of total revenues

HSBC should look to implement a similar structure to restrict financing in both OECD and non-OECD markets overtime.

Examples of leading practice: BPCE will exclude clients whose reliance on thermal coal activities exceeds 25 per cent of revenues after a one-year observation period (during which transactions are escalated). Credit Agricole will exclude clients generating more than 25 per cent of revenues depending on their transition path (to be assessed starting in 2021), which must include a phase-out plan. Crédit Mutuel will not provide financing if the recipient doesn't comply with corporate thresholds (annual coal production > 10 million tonnes, or installed coal power capacity > 5 GW, or coal share of revenue > 20 per cent, or coal share of power production > 20 per cent).

3. Coal phase-out

HSBC confirms its intention to phase out its exposure to thermal coal by 2030 in OECD countries and by 2040 in non-OECD countries

HSBC confirms its intention to phase out its exposure to thermal coal by 2030 in OECD countries and by 2040 in non-OECD countries, which it defines as clients that are not generating revenues, beyond 2030 or 2040 (whichever is applicable), greater than 5% of

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the client's total revenues, and that any remaining thermal coal-fired power plants to solely be utilised as flexible back up to zero and low-carbon power supply, and abated to reduce greenhouse gas emissions to near zero. This definition brings it in line with other leading European banks. We would recommend supporting this commitment by introducing absolute thresholds as well: the profitability of coal is declining fast and 2030/2040 are years away.

HSBC expects clients to publish transition plans by specific dates, but fails to outline what its red lines and expectations are, and what the consequences for clients that provide the bank with plans that are not aligned with net-zero by 2050 are

In 2018, HSBC committed to undertake due diligence when providing or facilitating financing to customers with coal-fired power portfolios that exceed 3,000 MW in generating capacity, 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. The bank had also committed to assess companies's disclosures in line with the four main TCFD pillars: governance, strategy, risk management, and metrics/ targets. It's unclear what impact these assessments have had on HSBC's financing of high-carbon industries and decarbonisation requirements for clients operating in specific sectors, other than allowing the bank to identify which companies and sectors are most at risk of credit losses[6]. External studies suggest that this hasn't stopped HSBC from financing these sectors.

Indeed, Rainforest Action Network demonstrated that HSBC's financing for 30 top coal mining companies and 30 top coal power companies **has increased** since 2016, making the bank the 21st and 17th largest financier of these companies in the entire world.

6 HSBC's TCFD 2020 report suggests that this assessment concluded that expected credit losses for coal and steel companies in their portfolio rise sharply, but more diversified mining companies perform relatively well in its Disorderly Scenario, and that the average impact on their power and utilities portfolio due to balancing effect from winners and losers is small.

	HSBC's financing levels in 2016 (US$)	HSBC's financing levels in 2020 (US$)	Total (2016-2020, US$)	Direction of travel?
Top 30 coal mining companies	83 million	86 million	418 million	Increase
Top 30 coal power companies	176 million	550 million	3.2 billion	Increase
Top 100 companies expanding fossil fuels, including coal	6.46 billion	16.2 billion	51 billion	Increase

Source: RAN, 2021

HSBC has committed to engage with its clients[7] and expects them to formulate and publish transition plans that are compatible with its own net-zero target. However, the bank fails to explain what exactly it would like to see in these transition plans. Furthermore, the choice of word is important here as banks use a hierarchy of words in their policies to indicate how 'binding' a commitment is. 'Expect' is less binding that 'require' (which sets mandatory conditions to be able to access financing), if not followed up with clear consequences for those that fail to comply (either immediately or within a set timeframe). Whilst HSBC indicated that it was likely to discontinue financing to clients that refuse to engage, it has failed to outline what will happen if clients provide HSBC with inadequate transition plans (and what it would consider to be an inadequate transition plan). We understand that a company might not have all the answers today. However, it is concerning that 'coal' is not given priority treatment in these assessments, and that clients are not required to provide HSBC with a coal phase out plan in line with its own coal phase out timelines by a specific date, failing that HSBC will phase out its exposure to them.

Factors that will be taken into consideration in HSBC's assessment include: 'the level of ambition indicated in the transition plan to reduce greenhouse gas emissions ; the clarity of the transition strategy, including metrics, governance and targets; adequacy of disclosure; the credibility of any proposed abatement assumptions; proposed post 2030/40 coal-fired power generation; and consideration of principles of 'just transition''. However, it remains unclear what weight will

be given to each factor, and what HSBC's expectations and red lines are for each. This lack of transparency and associated lack of clear consequences for those that fail to comply should raise red flags to investors.

7 HSBC defines 'clients' in its policy as companies that own, control and/or operate thermal coal mines, thermal coal-fired power plants, or coal to gas /liquid plants (or are seeking to do so).

HSBC *expects* to complete the assessments relating to clients operating within EU and OECD markets by the end of 2022, and clients in all other markets by the end of 2023. State-owned enterprises in markets outside of the EU and OECD countries could be given deadline extensions on a case-by-case basis. HSBC will consider factors such as the national climate plans of the markets in which the client operates into account when granting extensions. This should not prevent HSBC from asking these clients to act in line with the urgency required to meet 1.5C. Most government plans are far from being in line with 1.5C. Climate Analytics estimated during COP26 that current policies would lead to a 2.7C warming, and the current 2030 targets (without long-term pledges) put the world on track for a 2.4C temperature increase by the end of the century. More importantly, the UN Production Gap showed that governments st ill plan to produce more than double the amount of fossil fuels in 2030 than what would be consistent with limiting global warming to 1.5C. Therefore, to be credible, HSBC's coal phase out commitment and net-zero target should sit independently from government policy.

Banks must require clients to publish clearly defined coal phase out plans by a specific date - with clear and timebound consequences for those that don't

Banks have a choice: they can either gradually reduce their exposure to coal over time until it reaches close to zero by their pre-specified phase out date, or they can be pro-active and actively require their clients to have coal phase out plans in line with the banks's own phase out dates by a specific date, and restrict financing to those that are engaging in clearly Paris-misaligned activities, such as coal expansion.

As of July 2021, seven of Europe's largest 25 banks required their clients to publish credible coal phase out plans in line with their phase out strategy by a specific date. Since then, Standard Chartered, a close competitor of HSBC, announced it "expect[s] all clients in the power generation, mining and metals, and oil and gas sectors to have a strategy to transition their business in line with the goals of the Paris Agreement" by the end of 2022. However, like HSBC, Standard Chartered's use of the word "expect" instead of "require" suggests there will be few, if any, consequences for the companies that fail to comply with this expectation, and the bank fails to outline what it would like to see in companies's transition plans (albeit it lists transition technologies for each sector concerned.)

Example of leading practice: In 2019, Crédit Agricole announced that it now required clients to adopt by 2021 a detailed plan to close and not sell their coal assets by these deadlines. BNP Paribas also requires its clients to publish coal phase out plans in line with its own phase out dates by 2021, a move which could affect up to 50 per cent of their power clients.

HSBC has set 2025 and 2030 targets to reduce its thermal coal financing exposure

HSBC intends to reduce its thermal coal financing exposure by at least 25 per cent by 2025 and aims to reduce its thermal coal financing exposure by 50 per cent by 2030. This is slightly lower than the IEA Net Zero Emissions scenario, which estimates a fall in global unabated coal use in the energy system by 55 per cent by 2030, albeit these are different units of numbers. HSBC will also set short and medium-term financed emissions targets for coal-fired power in 2022. These targets, and associated disclosures, will provide important transparency on whether the bank is on track to meet its coal phase out commitment.

4. Financing restrictions across the value chain

HSBC has moved on infrastructure but fails to restrict financing across the thermal coal value chain

Restricting coal activities throughout the value chain is crucial to ensure that ancillary activities are not driving expansion of upstream operations. HSBC's policy covers thermal coal mines, thermal coal-fired power plants or coal to gas / liquid plants, and thermal coal infrastructure. The latter is defined as "assets dedicated to support thermal coal assets, such as coal terminals or coal railways". While HSBC takes a step in the right direction by including infrastructure (albeit only dedicated infrastructure), the policy does not cover many of the activities the Global Exit List has identified as critical to the development of thermal coal. To determine reliance on the thermal coal sector, the Global Coal Exist List considers all components of the coal value chain. This includes coal power generation, coal production, coal trading, coal logistics, coal processing, coal power transmission, coal chemicals (coal to gas/liquids), coal-related operation and maintenance services, coal mining services, coal-related engineering, procurement and construction services, coal exploration, coal equipment manufacturing, underground coal gasification, coal advisory services and all other activities that are thermal coal-related.

Examples of leading practice: BNP Paribas's policy covers infrastructure projects that are dedicated to thermal coal such as harbors or terminals of existing harbors, transportation of thermal coal by rail or road, storage of coal (warehouses). In addition, the bank has decided not to support any more companies involved in thermal coal extraction and trading with no exit strategy.

Crédit Mutuel's policy covers the entire value chain for the mining sector (exploration, planning, development of equipment, accessories, and civil engineering installations, buildings and structures, including associated facilities, operation, closing of a mine and site renovation, the initial transformation of ore on the site, transportation of the ore) and coal-fired power sector.

5. Asset management

HSBC has indicated that, unless in conflict with fiduciary or other regulatory obligations, all relevant HSBC entities, products and businesses will seek to implement policies that support transitioning away from coal-fired power and thermal coal mining within HSBC's 2030/40 timelines. This includes its asset management arm, which was found to have stakes in firms that plan more than 70 new coal plants. This is a welcome move that will ensure consistency across the group. However, HSBC Global Asset Management has not yet updated its existing coal policy, which currently has a score of 'zero' in Reclaim Finance's coal policy tool. ShareAction's analysis of the responsible investment practices of 75 of the world's largest asset managers has shown that strong action can be taken by asset managers on coal[8].

For the record, HSBC Global Asset Management's current policy commits the manager to:

- 'Encourage' its investee companies to phase out the use of unabated coal power by no later than 2030 in the OECD and EU, and no later than 2040 in the rest of the world.
- Prioritise engagement with companies extracting thermal coal that have not made a robust net-zero commitment, targeting commitments from those companies generating over 30 per cent of revenues by end 2021, 20 per cent by end 2022 and 10 per cent by end 2025, and target commitments from those companies' involvement in electricity generation representing 50 per cent of generating capacity by end 2021, 30 per cent by end 2022 and 10 per cent by end 2025.
- Implement selective exclusions if investee companies are not demonstrating sufficient progress, unless doing so would result in unacceptable market risk relative to the benchmark or doing so 'is not aligned with the Just Transition'.

Examples of leading practice: Axa Investment Management has introduced both relative and absolute thresholds to exclude companies with a high exposure to coal from its investment universe. It also will not invest in companies building new coal and related infrastructure (e.g. port terminals, dedicated railways.) Amundi requires its clients to publish coal phase out plans by the end of 2021.

8 See pages 27-28

Next steps for investors

HSBC has indicated that it would review its policy at least annually to ensure that it remains aligned with its phase-out commitment. This annual review is welcome and will provide investors with an at least annual opportunity to provide feedback on HSBC's coal policy. We therefore encourage banks to emphasise the following points in their engagement with the bank:

1. Will HSBC apply its coal expansion exclusions at both the client and group levels?
2. How many companies are affected by HSBC's choice of the 1st of January 2021 as a cut-off date to define coal expansionists?
3. Does HSBC estimate that coal developments contractually committed or under construction before 1 January 2021 would fit into the carbon budget associated with 1.5C assuming a conservative roll-out of Carbon Capture and Storage?
4. Will HSBC review its definition of coal expansion to make its consistent with its definition of new coal projects?
5. Will HSBC review its position on metallurgical coal, especially in the context of coal expansionists?
6. Will HSBC introduce financing restrictions to its existing client base operating in non-EU and OECD markets?
7. Will HSBC require its clients to provide the bank with coal phase out plans that are in line with its own coal phase out dates, and incorporate the 'close not sell' and just transition principles?
8. Will HSBC provide additional information on how it developed its targets to reduce coal financing by 25 per cent by 2025 and by 50 per cent by 2050?
9. Will HSBC expand its definition of coal infrastructure to incorporate all the activities outlined in the Global Coal Exit List?
10. Will HSBC apply the core principles of its coal policy across its products and services (including asset management)?

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