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Global Bank Announces Updated Energy Policy

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By Sara Bussiere
Special Counsel | Global Litigation

A global financial institution recently announced an updated energy policy, supplementing its previously issued 2030 targets. HSBC's 2030 targets aimed, among other things, to reduce financed emissions in two carbon-intensive sectors, oil and gas and power and utilities, by 2030, in conjunction with an organizational 2050 net zero goal. Specifically, the 2030 targets called for a 34% reduction in on-balance sheet financed emissions for oil and gas and 75% reduction in on-balance sheet financed emissions intensity for the power and utilities sector. The bank also set a goal to provide up to $1 trillion in sustainable finance and investment by 2030. In the updated policy, HSBC articulated a goal to reduce absolute on-balance sheet financed emissions from thermal coal mining by 70% by 2030 and 70% for thermal coal-fired power production. While HSBC will provide finance or advisory services to oil and gas clients at the corporate level (assuming the clients' transition plans are consistent with HSBC's targets and commitments), it will "not provide new finance, or new advisory services, to any client" for projects relating to (1) "new [oil and gas] fields where the final investment decision was made after December 31, 2021" or (2) "infrastructure whose primary use is in conjunction with new [oil and gas] fields." It also provides for similar limitations on certain other new oil and gas projects, articulates guidelines around financing certain nuclear projects, and reflects the bank's "appetite" to finance and provide advisory services in connection with renewables. Significantly, HSBC recognized, as other financial institutions have, that "fossil fuels, especially natural gas, have a role to play in the transition, even though that role will continue to diminish." Consistent with that view, the bank "will continue to provide finance to clients keeping oil and gas flowing to meet current and future (declining) global demand, with engagement on the transition vital to ensure companies decarbonize and diversify their energy supply, production and business models."

Taking the Temperature: As we have discussed, many global financial institutions have announced energy policies or updates to pre-existing policies that target reductions in emissions financing and investment in renewable projects. Many of these institutions also are members of industry climate coalitions, some of which have come under attack

in the U.S. by state and federal officials critical of banks' approach to climate and other ESG issues.

While we have expressed our skepticism of the basis for such attacks, we want to highlight two other aspects of HSBC's policy that are significant but perhaps underappreciated. One is the significant internal corporate governance structure reflected in HSBC's policy, where many potential engagements are subject to review and pre-approval by a "relevant governance committee," which is defined as a "formal, internal, risk governance committee that exists at either global, regional or country level across HSBC's global businesses to provide recommendations and advice on customers, transactions and wider reputational risks. These committees form part of HSBC's risk framework." The second is what HSBC characterizes as its "engagement with clients around their transition plans" as a means for HSBC to "influence the decarbonization of the energy sector." That engagement includes the bank conducting "appropriate due diligence" of client transition plans, which will be reviewed by a "relevant governance committee," and HSBC's expectation that clients provide it regular detailed disclosures regarding implementation of their transition plans. HSBC "will not provide new financing or new advisory services" to clients that do not work cooperatively with HSBC in these ways. Taken together, we think HSBC's governance and engagement approaches in an area as complex as climate transition are appropriate risk and opportunity (i.e., corporate governance) assessment mechanisms that public companies should consider, obviously modified as appropriate for each institution.