HSBC

HSBC's USD100bn Sustainable Financing and Investment Commitment - Data Dictionary 2020

We define sustainable finance as any form of financial service that integrates environmental, social and governance (ESG) criteria into business or investment decisions. Sustainable finance covers the financing and investment activities needed to support the United Nations Sustainable Development Goals (SDGs), and the Paris Agreement. This therefore includes both positive climate change and societal impact activities.

Unlike financial accounting standards, there are currently limited industry standards or globally recognised established practices for measuring performance of this type. We expect standards and definitions to be developed and evolve over time. We also expect innovation to lead to the creation of new products and services, these will be added to our data dictionary and disclosed publically via our website as they are identified. In particular this will focus on sustainable ESG activities required in the real world economy.

A key objective for HSBC is to provide financing and to facilitate, in an advisory capacity, the flow of capital to enable the transition to a low-carbon economy, whilst helping clients manage transition risk and enabling activities needed to support the Paris Agreement and the UN SDGs. HSBC has primary business governance forums that include; the Group Climate Business Council and the Green Bonds & Loan Committee, the remit of these forums covers both green and societal impacts. For further information please see the ESG information section of our website.

HSBC has commitment to provide and facilitate $100bn of sustainable financing and investments by 2025 and have appointed PricewaterhouseCoopers LLP (PwC) to provide limited assurance on the progress against this commitment as at 31 December 2020. We have therefore developed our data dictionary to provide additional guidance and transparency on the activities in scope that contribute towards our commitment.

We define sustainable finance in three categories:

1. **Facilitation**: advisory services to facilitate the flow of capital and to provide access to capital market;
2. **Financing**: lending facilities for defined use of proceeds, being the drawn and undrawn amount (i.e. the limit) provided at the point of execution, including bridging loans and trade finance loans; and
3. **Investments**: investments made into funds that have an impact on society and/or the environment. These funds are specifically defined as socially responsible and/or low carbon investments funds as they align to industry standards and they are managed by HSBC.

This is not a balance sheet value, instead our total commitment measures the cumulative flow of capital towards the low carbon economy and positive societal impacts since the beginning of 2017 - detailed definitions are available in the table below. Any transactions booked prior to 2017 have not been included in this commitment. Prior periods will not be restated if items are subsequently uncovered. We will remove projects from our prior periods if they lose their externally validated green or social impact status, for example; S&P or Moody's withdraw their Green Evaluations.

1. Facilitation

Products	Definition	Scope
Debt Capital Markets (DCM): Green, Social & Sustainability Bonds	Participation (bookrunner) in Green, Social and Sustainable (GSS) Bond issuance as defined by a green, social or sustainable bond framework (ICMA Bond Principles, Climate Bonds Initiative or HSBC Bond Frameworks), or are classified as a GSS Bond by Dealogic. This includes HSBC's own bond issuances.	Issuances from 1st January 2017 [2] where HSBC has acted as a bookrunner in the transaction, or HSBC is the issuer. Amount included is HSBC's apportioned value of the bond's proceeds, i.e. number of bookrunners per transaction. This is the Dealogic methodology which is recognised as the industry standard. The HSBC records are crossed checked / validated against Dealogic (an independent 3rd party transactions reporting platform). [3]
Structured Green Bonds	HSBC issued Green bonds that align to the above definition, however, they are linked to a well-defined ESG index and not publically traded. Annual progress update reports are available on the Green and sustainability bonds section of our website.	HSBC issuances from 1st January 2017 [2] where HSBC has issued a Green Bond linked to an ESG index. Amount included is full bond value as HSBC is the sole bookrunner, these are private placements and they are not recorded or reported by Dealogic. The bond are covered by the HSBC Green Bond Framework. These are issued by Global Markets and are reviewed by the HSBC Green Bond Committee. [3]
Debt Capital Markets (DCM)	Participation (bookrunner) in debt issuance for a company; classified by HSBC as a renewables company (companies defined as renewable based on the energy section of Climate Bonds Initiative Taxonomy), or a company whose core business or the project aligns to one of the ICMA eligible green project categories).	Issuances from 1st January 2017 [2] where HSBC has acted as a bookrunner in the transaction. Amount included is HSBC's apportioned value of the bond's proceeds (aligns to Dealogic methodology: bond proceeds divided by number of bookrunners). Data is crossed checked and is validated against external 3rd party reports provided by Dealogic. [3]
Equity Capital Markets (ECM)	Participation (bookrunner) in equity issuance for a company; classified by HSBC as a renewables company (companies defined as renewable based on the energy section of Climate Bonds Initiative Taxonomy), or, a company whose core business or the project aligns to one of the ICMA eligible green project categories)..	Issuances from 1st January 2017 [2] where HSBC has acted as a bookrunner in the transaction. Amount included is HSBC's apportioned value of the equity's proceeds (aligns to Dealogic methodology: deal proceeds divided by number of bookrunners). Data is crossed checked and validated against external 3rd party reports provided by Dealogic. [3]
Debt Capital Markets – Short Term Debt (STD)	Participation (bookrunner) in a short term debt issuance as defined by Dealogic, having the same characteristics as a bond, however, the maturity date is <18 month from issuance. The use of proceeds must align to one of the ICMA eligible green project categories.	Issuances from 1st January 2017 [2] where HSBC has acted as a bookrunner in the transaction. Amount included is HSBC's apportioned value of the equity's proceeds (aligns to Dealogic methodology: deal proceeds divided by number of bookrunners). Data is crossed checked and validated against external 3rd party reports provided by Dealogic. [3]
Finance Advisory	Advisory services on a loan, Export Credit Agency (ECA) or other type of corporate finance for a project which meets the criteria of an eligible green project. We define eligible green projects as those that meet the one of the use of proceeds requirement in the HSBC Green Bond Framework. The financing is provided by development banks, or governments (ECAs), due to the nature of the project.	Advisory service on new facilities (funding amount, being the limit at execution) from 1st January 2017 [2]. Amount included is HSBC's apportioned value of the financing (methodology: financing amount divided by number of advisors) [3][6]

2. Financing

Products	Definition	Scope
Project Finance	Loan or other type of corporate finance for a project which meets the criteria of an eligible green project. We define eligible green projects as those that meet the 'Renewables' criteria within use of proceeds requirement in the HSBC Green Bond Framework.	New facilities provided (committed amount, being the limit at execution) from 1st January 2017 [2]; or increases to facilities from 1st January 2017, in these cases we will only include the incremental increase, not the full value of the facility. These facilities are managed and monitored by our sector specialist team Infrastructure & Real Estate Group (IRG). The limit is sourced from HSBC's internal risk systems. [3]
Green Loans	Loans aligned to the Green Loan Principles (GLP) set out by the Loan Market Association (LMA); includes any type of loan instrument made available exclusively to finance or re-finance (re-financing in the same calendar year will be excluded), in whole or in part, new and/or existing eligible green projects.	New facilities provided (committed amount, being the limit at execution) from 1st April 2018. The facility terms and conditions will reflect GLP requirements. Monitoring and control is part of the Relationship Manager's normal credit process and is reviewed annually. The limit is sourced from HSBC's internal risk systems. [3]
Other Green Loans	Loans, includes any type of loan instrument [5] made available exclusively to finance or re-finance (re-financing in the same calendar year will be excluded), that do not meet the full requirements of the GLP (businesses may chose not to comply with all the requirements). However, the Use of Proceeds are determined to meet criteria for eligible green projects as defined in the GLP or HSBC Green Bond Frameworks. For example, this may include lending for green buildings, renewable energy, energy efficiency, or facilities provided to a company classified by HSBC as a 'pure green' company [1].	New facilities provided (committed amount, being the limit at execution) from 1st January 2017 [2]. Facilities that would qualify for use of proceeds under the GLP and/or Green Bond Framework. Local business teams identify green lending and the impact of the facility, these are reviewed on a case by case basis by regional and global sustainability experts to ensure they comply with the use of proceeds or that the company is a 'pure green' company. The limit is sourced from HSBC's internal risk systems. [3]
Green Trade Finance	Global Trade & Receivables Finance (GTRF) funded (lending) products that are aligned to the GLP. The facilities made available exclusively to finance or re-finance (re-financing in the same calendar year will be excluded) eligible green underlying trade activities (evidenced by underlying trade transaction documents). GTRF lending products include: Trade Loans, Receivables Finance, Imports and Exports, and Commodity Structured Trade Finance (CSTF), these facilities will be recognised when the 4 pillars of the GLP are met.	New facilities provided (committed amount, being the limit at execution) from 1st June 2019. The facility terms and conditions will reflect GLP requirements. Monitoring and control is part of the Relationship Manager's and/or GTRF Business Development Manager and/or GTRF Transaction Services normal credit and transaction processes and is reviewed annually. The limit is sourced from HSBC's internal risk systems. [3]
Sustainable Trade Instrument	Global Trade & Receivables Finance (GTRF) contingent liability products that are aligned to the Sustainable Contingent Principles (SCP). The SCP is an internal framework that is based on GLP and ICMA Social Bond Principles, it combines the 'use of proceeds' and the 4 core components of the existing frameworks. GTRF contingent liability products include: guarantees, standby letter of credit, and documentary credit	New facilities provided, being the limit of the line that aligns to the definition at execution, from 1st January 2020. The facility terms and conditions will reflect SCP requirements. Monitoring and control is part of the Relationship Manager's and/or GTRF Business Development Manager normal credit process and is reviewed annually. The limit is sourced from HSBC's internal risk systems and/or GTRF systems. [3]
NB. HSBC is establishing the appropriate criteria and definitions to account for societal impact activity financing, for example SDG and Social Loans		

3. Investments

Products	Definition	Scope
Socially Responsible Investment (SRI) Funds	Assets under management in funds that are defined as socially responsible investments ('SRI'). These funds primarily avoid investing in companies that can have a negative impact on society, such as tobacco or gambling. Some of the SRI funds are investing in companies that aim to reduce the detrimental impacts that climate change can create, while others have defined transition strategies. These transition strategies may include using alternative energy clean technology and developing sustainable products and/or seeking to increase the beneficial impacts on our society, such as health, housing and clean water HSBC's SRI funds follow the Global Sustainable Investment Alliance (GSIA) global standard of classification, being; a fund is deemed to be SRI if it has been subject to one, or more, of the following GSIA tests: Negative/exclusionary screening, Positive/best-in-class screening, Norms-based screening, Sustainability themed investing and Impact/community investing. SRI funds (and all HSBC investments) are subject to ESG integration and Corporate engagement & shareholder action screening [4]. An example of our ESG approach can be seen in our ESG integration in our Euro aggregate strategy.	HSBC Group Asset Management. Facilities provided from 1st January 2017 [2], net new flows into the identified funds (not the fund total Assets under Management). [3]
Principal Investment	Investments made by GBM HSBC Principal Investments Group into investment funds focused on investing in sustainable and social impact related businesses. The investment strategies of these funds would primarily align with the UN Sustainable Development Goals, and the fund managers would provide regular sustainable and impact development reporting.	Funds invested from 1st January 2018 by HSBC. The full commitment value of HSBC's investment into the fund will be recorded on the first capital draw down. If additional commitment to an existing fund occurs at a later date, only the incremental amount will counted. [3][6]

1. We define 'pure green' companies as businesses which derive 90% or more of their revenues from activities in 'Eligible Sectors', such as renewables or energy efficiency. In these instances, Use of Proceeds can be used by the business for general purposes, so long as this financing does not fund expansion into activities falling outside the Eligible Sectors. Validation sits with Group Finance and HSBC's Green Loans Committee. Eligible Sectors are listed in the Green Bond Framework.
2. Although we announced the $100 Sustainable Financing commitment in November 2017, we began counting activity toward it starting with calendar-year 2017 deals.
3. Amounts are converted to USD at the time of the transaction as they are a point in time measurement. Amounts are not restated to adjust for changes in FX rates
4. All HSBC assets under management align to HSBC's RI policy and are subject to ESG integration and corporate engagement and shareholder action screening
5. Loan instruments include, but not limited to; Import or Export loans, HSBC Equipment Finance (HEF) and Export Credit Agency (ECA)
6. For newly added definitions we will not restate prior year results and will include new facilities from the period the definition was added.