Climate Action in Financial Institutions

PRINCIPLES FOR MAINSTREAMING CLIMATE ACTION

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Assessment of HSBC France's exposure to Physical and Transition risks related to climate change

Institution	Principle	Related Work Stream(s)
HSBC	PRINCIPLE 2: MANAGE Climate Risks	CLIMATE RISKS: APPROACHES, TOOLS, METHODOLOGIES

Publication date: 2018

Date Policy/Tool Established	Additional Capacity Required (e.g., staff, resources, other)	How Established?
In 2016, HSBC France assessed the alignment of its portfolio with an IAE's 2°C trajectory scenario for the first time.	HSBC France mobilised an internal team gathering experts in the area of Credit and Risk, Global Banking and Commercial Banking. The data obtained was then submitted for analysis to an external specialist.	The decision to assess HSBC's exposure to climate change risks came from the HSBC FRANCE CEO and the internal Climate Business Council of HSBC France (a committee set up to drive the climate finance strategy of the bank).

Monitoring, reporting tools	How Implemented?
HSBC France sent information on how they assess climate change risks to the Banque de France's Prudential Control and Resolution Authority (ACPR) as per reporting requirements article 173 of French Act no. 2015-992 of 17 August 2015. The information provided focused on HSBC's exposure to physical and transition risks related to climate. The two sectors analysed were Energy and Transport.	The external specialist conducted its analysis using a detailed bottom-up approach. Each company financed by HSBC France was classified into a sub-sector category (oil, air travel, electricity production, etc.) according to its activities. Some companies were included in multiple sectors, taking into account different activities. For example, Electricité De France (EDF) was registered as both an electricity producer and a gas supplier. The sectorial allocation was heavily dependent on the firm's revenue for each of their activities.

Key Lessons

- The energy mix financed by HSBC France is as follows: 0% coal, 71% oil and gas, 27% electricity and 2% biomass. This is in line with the IEA's 2˚C scenario for coal.
- The electricity mix financed by HSBC France, with a CO_2 emissions factor of 97g CO_2/kwh, is in line with the IAE's 2˚C trajectory, and already below expected levels for 2030-2035.
- In the transport sector, the mix financed by HSBC France is as follows: 61% air, 26% marine and rail and 9% road. That gives an emissions factor of 132g CO_2 per passenger-kilometre, bringing the mix in line with the IEA's 2˚C trajectory by 2020.
- A larger understanding of HSBC France exposure to transition risk is needed. A second exercise is being conducted for the real estate and industry sectors in 2017-2018
- Ensuring HSBC staff understands climate risk is important so everyone can consider the climate risks and opportunities of their own activities.

Introduction

HSBC has been working hard to develop and implement their approach to environmental and social issues, particularly in vulnerable sectors, for many years. Policies are regularly reviewed and updated based on feedback from their customers, trusted partners and NGOs. For example, following feedback, HSBC updated its Forestry policy in 2014 and introduced new policies to cover agricul¬tural commodities, World Heritage Sites and Ramsar wetlands.

The 2015 Paris Agreement emphasised the financial sector's role in combating climate change. HSBC strives to make sure their operations are in line with the ambition set in the Paris Climate Agreement, for instance by strengthening their standards related to lending to new coal projects. Moreover, their energy policy is currently under review and due to be updated in 2018.

HSBC aims to manage both climate-related physical and transition risks to the financial services they provide to their customers, as these can lead to commercial risk for their customers, credit risk for the bank, and wider reputational risk if not managed properly. It is thus in everyone's interest to prioritize this.

Development and Design

HSBC France carried out an initial assessment of the alignment of their financing portfolio with the International Energy Agency's 2˚C scenario in 2016. The Assessment focused on investments in energy and transport, as both are critical sectors towards a transition to a low carbon economy, with a materiality threshold of EUR 2 million. Combined, the energy and transport sectors account for 10% of HSBC France's on-balance-sheet assets and the sample used covered 86% of those assets.

Investments were assessed individually based on the energy/transport mix of each company. They were then categorised into a sub-sector according to their activities (e.g. oil, air travel, electricity production). At times, companies were included in multiple categories depending on their share of activities. Some sectors were analysed in greater depth, due to facing a bigger challenge in the context of energy and climate transitions. Each company was accounted for according to HSBC France's associated exposure. Therefore, only HSBC's exposure to companies was taken into account.

Results

The exercise showed that:

- similar to the French banking sector as a whole, HSBC France is more exposed to transition risks than to physical risks;
- on average 10.1 per cent of loans outstanding are exposed to transition risks (7.1 per cent of that exposure is located in France);
- The most exposed sectors are the production of electricity, gas, steam and air conditioning; construction; land-based transport; and oil pipelines.

Impact

HSBC scored the highest mark (A) for its climate strategy and disclosure in the global assessment completed by the Carbon Disclosure Project (CDP). This assessment assisted HSBC group to shape its global transition risk process in line with the TCFD recommendations.

Next Steps

HSBC France is working hard to mainstream climate strategies and make managing climate-related risks part of its day-to-day core business. It is currently focusing on the implementation of risk strategies and maintain all their risk management strategies under review to make sure they are up to date and as strong as possible.

Moreover, HSBC's designated Sustainability Risk Managers regularly provide training to executives from Risk, Global Banking and Markets and Commercial Banking in every geographical region.

HSBC will adopt the recommendations of the Task Force on Climate-related Financial Disclosure (TCFD) and will start reporting in 2018.

More broadly, HSBC has committed to providing $100 Billion in sustainable financing and investment by 2025 .[1]

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1 http://www.hsbc.com/news-and-insight/media-resources/media-releases/2017/hsbc-to-help-combat-climate-change-with-a-100-billion-boost-for-sustainable-financing