

Forest Land and Forest Products Sector Policy: Frequently asked questions

HSBC consulted a broad range of stakeholders before finalising its *Forest Land and Forest Products Sector Policy*. In response to questions asked during the consultation process, the following answers have been produced as additional guidance for all stakeholders.

1. How does this policy differ from HSBC's earlier policy?

HSBC published its original *Forest Land and Forest Products Sector Guideline* in 2004. This was updated and strengthened in 2008 with the publication of our *Forest Land and Forest Products Sector Policy*. The two versions retain the principal underlying commitment to support clients in the sector whose activities are independently certified as legal and sustainable. However, a number of technical changes have been made, primarily to improve the ease and consistency of implementation, but also to eliminate an inconsistency within the original guideline.

2. Does HSBC still support certification by the Forest Stewardship Council (FSC)?

Yes. We continue to use the FSC as our benchmark of a certification scheme which provides satisfactory assurance of legality and sustainability. The original guideline described our certification standard as 'FSC or equivalent' and we have now completed a substantial project to define our exact standard and to identify other schemes which meet it.

An integral element of our approach is to recognise national and international schemes which meet our standard and we are pleased to see the progress made by several schemes over the last four years. In order to acknowledge this progress, we now refer to 'approved schemes'.

3. Are there areas where HSBC is not broadly consistent with FSC?

There are two specific areas where our standard diverges from the FSC:

1. To ensure consistency with terminology used under our commitment to the Equator Principles, our standard requires the 'free, prior and informed *consultation*' of impacted communities as a way of achieving broad community support, recognising that support may be achieved even if some individuals or groups object. This wording replaces the FSC's commitment to 'free, prior and informed *consent*'.
2. To reflect the date when our original guideline was published, we do not finance plantations converted from High Conservation Value Forest (HCVF) since 2004. This date replaces the FSC's cut-off of 1994, which relates to its own date of commencement. We also acknowledge that emerging certification schemes (such as the Roundtable on Sustainable Palm Oil) will have their own cut-off dates. As our approach is to encourage new schemes, we intend to accept their cut-off dates as long as their other criteria meet our standard.

4. Why does HSBC's policy seek a certification level of 70%?

Compliance with our policy requires a client to achieve certification under approved schemes that 70% of its activities are sustainable, with evidence that the remainder is legal. The 70% threshold is based on

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the FSC's requirement for products from mixed sources, as that standard most accurately represents the way in which we do business with clients in this sector. For example, we would typically provide financial services to a client operating a number of logging concessions, rather than just one. A level of 70% satisfactorily demonstrates a client's commitment to certification and allows flexibility for instances such as a client taking over new operations which are uncertified.

5. Has HSBC changed its policy on activities which it considers 'prohibited'?

No. The original guideline contained more activities in the prohibitions section than the new policy does, but this change does not reflect a weakening of our policy. We have effectively moved these prohibitions to the certification section of the policy, where sector experts (rather than bank staff) can provide improved analysis. We have eliminated one inconsistency and we have simplified some terminology. The details are as follows:

Species listed in the Convention on International Trade in Endangered Species (CITES) – This former prohibition is an international law included in our standard for assessing the legality of a certification scheme and it is also covered by our use of the term High Conservation Value Forest (HCVF).

Critical Natural Habitats - This former prohibition is covered by our use of the more comprehensive term HCVF.

High Conservation Value Forest (HCVF) – This was a key element of the guideline and remains a key element of the new policy. It is included within our definitions of legality and sustainability, for which assurance is provided by certification experts. There are two changes relating to HCVF:

- HSBC has received external technical opinion confirming that HCVF encompasses terms used in the original Guideline such as species listed in CITES, Critical Natural Habitat and Primary Tropical Moist Forest. HCVF is a more comprehensive term – for example, it includes sensitive forest areas anywhere in the world, not only in the tropics – and it is simpler to have one definition.
- There was an inconsistency in the wording of our original Guideline, which supported the FSC but prohibited *any* logging in HCVF. The FSC permits low impact logging in HCVF where that logging is undertaken in a sensitive and sustainable manner. The new policy eliminates this inconsistency by following the FSC's approach to eliminate adverse impacts.

Primary Tropical Moist Forest – This former prohibition is covered by our use of the more comprehensive term HCVF.

6. Why does HSBC not make its full internal policy available?

HSBC's internal policies are lengthy documents which include detailed implementation procedures and banking terminology designed for HSBC staff. We believe that a short public summary of that policy is the most effective way of communicating the principal elements of our approach to external stakeholders and most stakeholders who have reviewed our internal policy agree.

7. How can HSBC show that it is implementing its policies effectively?

This is a common question, particularly where stakeholders have concerns about the activities of a company or business which may be an HSBC client.

Banks have a duty of confidentiality towards their clients and, unless obliged by local laws – for example, to combat money laundering – are unable to comment on clients. Nevertheless, we understand the interest of our stakeholders in policy implementation and have introduced measures to provide reassurance without breaking client confidentiality. In 2006 we were the first bank to have our implementation of the Equator Principles audited by a third party, with the results published in our annual *Sustainability Report*. We are also introducing an internal reporting system which will provide data on the extent to which our clients are compliant with our sector policies, a high-level summary of which we intend to publish.

As part of this exercise we have completed an analysis of our clients operating in the Forest Land and Forest Products Sector as at 31 March 2008. This analysis initially focuses on our offices located in countries where there is a high incidence of illegal logging, biodiversity or social conflict, but is being extended to all offices. It confirms that 27% of our clients are compliant with our policy and that 43% are making credible progress towards meeting it. This leaves 30% of our clients which have made little material progress towards our standards and are considered non-compliant. We intend to exit those relationships, which allows us to focus our future support on clients which are committed to our standards. Positively, when we analyse clients by the size of our relationship (ie by loan amounts), 93% of our clients are either compliant with our policy or making good progress towards meeting it.

