

Annex XVI: Accreditation assessment of Applicant 026 (APL026)

I. Introduction

1. Applicant 026 (APL026), HSBC Holdings plc and its subsidiaries (HSBC) headquartered in the United Kingdom of Great Britain and Northern Ireland, is an international commercial bank headquartered in Europe. With a history of over 150 years, the applicant's international network covers 72 countries and territories, including a presence in five small island developing States and least developed countries. Currently, the applicant has a volume of more than US\$ 200 billion across 37 countries in sustainable energy, transport and clean water projects. The applicant is currently ranked as the world's number one project advisor and infrastructure finance house, and the leading advisor in sub-Saharan Africa. The applicant seeks accreditation to the GCF in order to share its experience and skills to assess the risks associated with infrastructure investment opportunities, as well as to act as an educator, via its climate change centre, offering a dedicated research capability focusing on the investment implications of climate change. The applicant offers to arrange and finance public and private partnerships projects in developing countries and work with local and regional banks on infrastructure and project financing, sharing its expertise and experience and building its skills base.

2. The applicant submitted its application for accreditation to the Secretariat via the Online Accreditation System on 15 January 2015. Stage I, institutional assessment and completeness check, and Stage II (Step 1), accreditation review, were concluded. It has applied to be accredited for the following parameters under the fit-for-purpose approach of the GCF:

- (a) **Access modality:** international access;
- (b) **Track:** normal track;
- (c) **Size of an individual project or activity within a programme:** Large;¹
- (d) **Fiduciary functions:**²
 - (i) Basic fiduciary standards;
 - (ii) Specialized fiduciary standard for project management; and
 - (iii) Specialized fiduciary standard for on-lending and/or blending (for loans, equity, and guarantees); and
- (e) **Environmental and social risk category:** high risk (Category A/Intermediation 1 (I-1)³).

II. Accreditation assessment

3. The applicant has been assessed against the standards of the GCF by the Accreditation Panel (AP).

¹ As per annex I to decision B.08/02 (annex I to document GCF/B.08/45), "large" is defined as "total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above US\$ 250 million for an individual project or an activity within a programme".

² Decision B.07/02.

³ As per annex I to decision B.07/02 (annex I to document GCF/B.07/11), category A is defined as "Activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented" and intermediation 1 is defined as "When an intermediary's existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented".

4. As a part of this assessment, the AP has consulted the applicant's website, as well the websites of relevant regulators to complement the information provided by the applicant in its application.

2.1 Fiduciary standards

2.1.1 Section 4.1: Basic fiduciary standards: key administrative and financial capacities

5. The applicant has an established organizational structure and appropriate oversight bodies which are appropriate for its size and the global scope of operations. At board level, the applicant has established several committees, including for audit, risk and compliance. The applicant's control framework is based on the regulatory requirements in the jurisdictions in which it operates. Furthermore, the applicant has adopted the Committee of Sponsoring Organizations Internal Control Framework, thereby complying with the regulatory requirements of the jurisdictions in which it operates as well as with best practices.

6. The applicant's risk management framework defines the roles and responsibilities at each level of the organization, including the role of its board of directors and committees, and the responsibilities of the executive team. The applicant has an independent risk function, as well as an independent internal audit function.

7. The applicant demonstrated that it has a well-established information and reporting system, that generates timely and accurate information required for managerial decisions and regulatory reporting.

8. The applicant provided audited annual statements, including the external audit opinion which contains no reservations. The financial statements are prepared in accordance with the International Financial Reporting Standards.

9. The applicant's global procurement function has oversight for all purchasing activities undertaken at the global level. The applicant's procurement policy establishes the mechanisms that provide reasonable assurance that the vendor selection process is appropriate, that procurement is conducted in a transparent manner and that all suppliers are treated in an equitable manner. Furthermore, the applicant's procurement organization has clearly defined responsibilities delegated to global heads who manage the diverse activities of the procurement process.

2.1.2 Section 4.2: Basic fiduciary standards: transparency and accountability

10. The applicant's code of ethics, which is communicated to all employees, establishes the standards of conduct that are to be observed when performing activities on behalf of the applicant. In addition to the code of ethics, the applicant has specific policies that relate to anti-bribery, the conduct of senior executives and its corporate governance policies. Furthermore, the applicant's procurement policy includes the ethical standards with which its suppliers are expected to comply. The ethics committee oversees compliance with the established ethical standards.

11. The applicant has experienced, in recent years, increased costs due to regulatory compliance issues. In response to the compliance issues, the applicant has invested substantial financial and human resources in the improvement of its compliance risk management function. As part of the improvements, the applicant has reinforced its investigation function, as well as the tools and mechanisms available to report misconduct. The investigation function is undertaken by units at different levels of the organization and a record of all reported cases of

misconduct and breaches of internal procedures is kept. Furthermore, the applicant has included observance of the code of ethics as part of the employee evaluation process.

12. The applicant provided its anti-money laundering (AML) and countering the financing of terrorism (CFT) policies, which are applicable in all markets in which the applicant operates. The policy reflects the 40 recommendations of the Financial Action Task Force on Money Laundering on combating money laundering and the 9 special recommendations on CFT. Before conducting business with any prospective customer, appropriate “know-your-customer” (KYC) due diligence is required to be undertaken and recorded. The policy requires appropriate scrutiny, and monitoring of transactions, account activity and customers is undertaken in order to identify and report unusual and suspicious activity. To comply with sanctions and with lists of known or suspected terrorists issued by the United Nations and by competent authorities, the policy requires the applicant to ensure that all payments are subject to real-time pre-execution screening against sanctions lists issued by the competent authorities.

13. As noted in paragraph 11 above, the applicant has been subject to regulatory action due to failures in its internal control and compliance systems. Failures in AML/CFT controls are a significant issue in the regulatory reports. In response to the control deficiencies the applicant has:

- (a) Created a specialized board committee to oversee all AML/CFT activities;
- (b) Named a senior executive to oversee all compliance activities of the organization at the global level;
- (c) Implemented enhanced AML/CFT policies that are applicable at the global level;
- (d) Enhanced due diligence and KYC processes and procedures, including specific processes for on boarding customers as well as for monitoring the relationship;
- (e) Enhanced due diligence of affiliated companies at the global level; and
- (f) Enhanced controls over the processing of fund transfers.

2.1.3 **Section 5.1: Specialized fiduciary standard for project management**

14. The applicant demonstrates a long track record and experience in project finance, with demonstrated expertise in assessing project viability, developing the appropriate financial structure and monitoring project performance during the development and operational stages. The applicant has co-financed projects with private and public sector co-investors, as well as with international development entities.

15. The applicant has well-developed processes to identify potential projects, identify and evaluate project risks, develop appropriate financial structure and attract co-investors to secure the GCFs required for a given project.

16. The applicant’s project finance team is responsible for evaluating project proposals and conducting the required due diligence. For the assessment of project proposals the team uses risk evaluation tools that have been approved by its banking regulator, independent expert reports and the project information provided by the sponsor. The outcome of the assessment is a credit approval request that includes the description of the project, the projected financial returns and the assignment of a credit rating. The credit rating is reviewed and approved by the independent risk department.

17. The credit approval request and the risk indicators are entered into the credit risk management system for approval by the officers authorized by its board of directors to approve the credit requests.

18. The applicant's procedures to monitor projects during the development phase, as well as during the operational phase, ensure that appropriate oversight is exercised and that project risks are appropriately managed. Responsibility for monitoring projects is assigned to the project finance monitoring team, which is independent from the project origination team. The responsibilities of the monitoring team include:

- (a) Permanently monitoring project finance deals;
- (b) Performing annual reviews of projects;
- (c) Reviewing the project credit rating; and
- (d) Undertaking restructurings and workouts.

19. The independent risk department reviews and validates the credit risk rating assigned by the monitoring team.

20. If and when the credit rating deteriorates, the project can be placed under the supervision of the monitoring committee that meets on a quarterly basis.

21. The applicant has noted that its project financing operations are subject to confidentiality clauses and project details are not publicly disclosed. The applicant provided examples of projects for which it has published information, but it does not have an established policy for public disclosure of project details.

2.1.4 **Section 5.2: Specialized fiduciary standard for grant award and/or funding allocation mechanisms**

22. The applicant did not apply for assessment against this standard at this time.

2.1.5 **Section 5.3: Specialized fiduciary standard for on-lending and/or blending**

23. The applicant is a global financial institution that is subject to regulation in several jurisdictions. Additionally, the applicant has implemented risk management policies aligned with the recommendations of the Basel Committee on Banking Supervision. The regulatory requirements, as well as the adoption of international best practices, provide assurance that the applicant has effective controls over the third-party funds it manages.

24. The applicant provided project examples that demonstrate its capacity to manage projects that use loans, guarantees and equity as the investment instrument.

25. The applicant's processes for financial and risk management policies are well-developed and supported by both the independence of the risk management and the internal audit functions.

26. The applicant is a global leader in project finance and has a proven track record as mandated lead arranger; this track record demonstrates that the applicant has the required controls and procedures to adequately manage financial resources received from third parties.

27. The applicant's global risk function monitors the performance and management of all credit portfolios at the global level.

28. The applicant has been rated with an investment grade rating by all three major rating agencies (Moody's, Standard & Poor's and Fitch).

2.2 Environmental and social safeguards

2.2.1 Section 6.1: Policy

29. The applicant is an Equator Principles Financial Institution and, as a result, has a policy equivalent explaining how the Equator Principles (which include the performance standards) will be implemented in its investments. In addition, it has its own institutional policies and sector guidelines, all of which are supported by operational guidance to staff. The applicant has committed to apply the interim environmental and social safeguards (ESS) requirements of the GCF to all projects, not just to those that would be within the scope of application of the Equator Principles.

2.2.2 **Section 6.2: Identification of risks and impacts**

30. The applicant has a documented process of identifying risks and impacts in a systematic manner, which is integrated into business processes and is supported by guidance to staff and process templates. The process includes a checks and balance system that requires greater oversight and clearance from a central global group as the environmental and social risk of the investment increases. As an Equator Principles Financial Institution, a track record of implementing the performance standards in projects over a number of years has been established. Implementation of the Equator Principles is publicly reported upon and is also verified annually by an independent assurer.

2.2.3 **Section 6.3: Management programme**

31. The applicant has procedures in place so that when environmental and social (E&S)-related gaps are identified during the identification of risks and impacts process between the project/programme and the Equator Principles, an environmental management plan (action plan) is developed to close these gaps over time.

2.2.4 **Section 6.4: Organizational capacity and competency**

32. The applicant has adopted an organizational structure that is appropriate for the complexity and size of the organization and of the investment projects undertaken, and which reports to senior management both through a sub-committee of the applicant's board and through the risk function. The applicant has 62 technical E&S staff allocated both to regions and centrally, which enables the gathering and sharing of knowledge, best practices and early identification of emerging issues and trends.

2.2.5 **Section 6.5: Monitoring and review**

33. The applicant has a monitoring group that monitors performance of the investment, including E&S commitments made in the environmental management plan, on an ongoing basis. Unresolved issues are elevated internally for action as needed. The internal monitoring system is supported by an electronic tracking and tickler system, which prompts investment reviews in a timely manner.

2.2.6 **Section 6.6: External communications**

34. The applicant has an external communications mechanism, which provides a system to receive, document and respond to questions or complaints from the general public and from clients. This system can be accessed via the website, by telephone, or in writing.

2.3 Gender

35. While the applicant is able to demonstrate a track record of lending that resulted in positive impacts to women, it does not have a gender policy or strategy targeted to achieving these results or specific gender competencies. It does, however, have targeted strategies to increase the number of women within its own organization.

III. Conclusions and recommendation

3.1 Conclusions

36. Following its assessment, the AP concludes the following in relation to the application:
- (a) The applicant meets the requirements of the GCF basic fiduciary standards and specialized fiduciary standard for project management. The applicant partially meets the specialized fiduciary standard for on-lending and/or blending for loans, equity and guarantees because the standard requires a process for publically disclosing information on beneficiaries and results of projects;
 - (b) The applicant meets the requirements of the interim ESS of the GCF in relation to the high E&S risk, Category A/I-1; and
 - (c) The applicant has demonstrated that it has experience and a track record with gender, but it does not have a gender policy or specific gender competencies.

3.2 Recommendation on accreditation

37. The AP recommends, for consideration by the Board, applicant APL026 for accreditation as follows:

- (a) **Accreditation type:**
 - (i) **Size of an individual project or activity within a programme:** large (including micro,⁴ small⁵ and medium⁶);
 - (ii) **Fiduciary functions:**
 1. Basic fiduciary standards;
 2. Specialized fiduciary standard for project management; and
 3. Specialized fiduciary standard for on-lending and/or blending (for loans, equity and guarantees); and

⁴ As per annex I to decision B.08/02, “micro” is defined as “maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of up to and including US\$ 10 million for an individual project or an activity within a programme”.

⁵ As per annex I to decision B.08/02, “small” is defined as “maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above US\$ 10 million and up to and including US\$ 50 million for an individual project or an activity within a programme”.

⁶ As per annex I to decision B.08/02, “medium” is defined as “maximum total projected costs at the time of application, irrespective of the portion that is funded by the GCF, of above US\$ 50 million and up to and including US\$ 250 million for an individual project or an activity within a programme”.

- (iii) **Environmental and social risk category:** high risk (Category A/I-1) (including lower risk (Category B/I-2⁷ and Category C/I-3⁸)).
- (b) **Conditions:** the applicant will be required to submit to the AP, through the Secretariat, information on how it has complied with the condition(s). The AP will thereafter assess whether the condition(s) has/have been met. This assessment will be communicated by the Secretariat, on behalf of the AP, to the Board for information purposes.
- (i) Condition(s) prior to the first disbursement by the GCF for an approved project/programme to be undertaken by the applicant:
1. Provide the Fund, through the Secretariat, with a letter of comfort executed by the appropriate authority within the applicant entity stating that it is taking the necessary actions to strengthen its internal controls related to compliance with relevant regulations, including, but not limited to, risk management, management of operational risk, and anti-money laundering and countering the financing of terrorism;
 2. Develop a process for publicly disclosing information on beneficiaries and results of projects and programmes that are financed by the GCF. This process should be aligned with the requirements of the GCF regarding disclosure of project information; and
 3. Develop a gender policy or approach in line with the gender policy of the GCF and obtain gender competencies to implement the policy/approach on projects and programmes funded by the GCF.
- (ii) Condition(s) to be met on an annual basis :
1. Provide the Fund, through the Secretariat, with its annual reports that disclose information on regulatory compliance;
38. The applicant has been informed of the recommendation for accreditation, including the accreditation type and condition(s), as identified in paragraph 37 above, and agrees to the recommendation.

⁷ As per annex I to decision B.07/02, category B is defined as “Activities with potential mild adverse environmental and/or social risks and/or impacts that are few in number, generally site-specific, largely reversible, and readily addressed through mitigation measures” and intermediation 2 is defined as “When an intermediary’s existing or proposed portfolio includes, or is expected to include, substantial financial exposure to activities with potential limited adverse environmental or social risks and/or impacts that are few in number, generally-site specific, largely reversible, and readily addressed through mitigation measures; or includes a very limited number of activities with potential significant adverse environmental and/or social risks and/or impacts that are diverse, irreversible, or unprecedented”.

⁸ As per annex I to decision B.07/02, category C is defined as “Activities with minimal or no adverse environmental and/or social risks and/or impacts” and intermediation 3 is defined as “When an intermediary’s existing or proposed portfolio includes financial exposure to activities that predominantly have minimal or negligible adverse environmental and/or social impacts”.