



16 October 2012

Global Witness
6th Floor
Buchanan House
30 Holborn
London
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Dear Global Witness,

Thank you for the opportunity to respond to your intended publication concerning forestry and corruption in Sarawak, Malaysia. I am writing in response to emails sent by Global Witness to HSBC, addressed to the Press Office and to Irene Dorner, on 9 October 2012.

In respect of Irene Dorner, it is a matter of public record that she served as CEO in Malaysia from June 2007 to 31 December 2009.

Turning to your letters, it is not accurate to state that HSBC's clients are in violation of HSBC's Forest Land and Forest Products Policy. As you may be aware, HSBC cannot discuss current or former clients, whether individuals or corporates, for reasons of confidentiality - in fact to do so would be against the law. However we can explain our approach to implementing our policy and would make the following points:

- When we issued the policy in 2004 we committed to encourage and support our customers over a five-year period to obtain independent certification that their activities were legal and sustainable. The year 2009 therefore marked the end of this period, and in our Sustainability Report 2009 we reported that 98 per cent of our customers in this sector (by size of lending) were then compliant or near-compliant with our policy.
- We stated at the time that we would continue to work with customers who were making progress in complying with our policy, and would end relationships with our remaining non-compliant customers as soon as contractual obligations allowed.
- We consider engagement rather than exclusion as the right approach for a responsible bank to take. As such we will support clients who are on a credible path towards achieving compliance with our policy. In that way, we believe that HSBC contributes more to sustainable development than if we were merely to exit customer relationships, in which case there would be less incentive for companies to move towards more sustainable operations. We will, however, exit relationships with companies that do not comply within a given timeframe.
- HSBC does monitor the performance of clients in the region. Where certification schemes may not be well established we employ Certification Support Providers to ensure we have the information required to assess compliance with our policies.
- Since 2009, HSBC has indeed exited – or is in the process of exiting – any remaining client relationships in this sector where clients have not shown credible steps to meeting our policy criteria.
- HSBC stands by its policy and its robust implementation. All the sector policies are regularly reviewed - often as a result of constructive engagement with NGOs.

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With regard to the involvement of PEPs in any company, anywhere in the world, HSBC would make the following points:

- As above, you are aware from previous correspondence and discussions that we cannot discuss clients for reasons of confidentiality - even to confirm/deny they are (or were) clients.
- HSBC does carry out rigorous KYC and enhanced due diligence checks on all PEPs, in all jurisdictions.
- The involvement of a PEP in a company is not of itself sufficient grounds for exiting a commercial relationship.
- HSBC does not publicise what checks it performs on PEPs, or the frequency.
- You cannot assert that HSBC 'fail[ed] to carry out' such checks or 'turned a blind eye' as you simply do not know.
- HSBC is a founder member of the Wolfsberg Group and remains committed to the principles; further, it has been ahead of international standards in this area, for example by applying PEP procedures to domestic PEPs in advance of the recent recommendation by the Financial Action Task Force.

Your letter is titled 'right to reply'. We therefore expect nothing less than the unedited inclusion of our complete response.

HSBC remains committed to sustainable banking, working with interested parties and undertaking responsible engagement with clients to ensure they meet and continue to comply with its sector-specific policies. We value the information that NGOs can provide us to help us improve our Sustainability Risk Policies over time and also to help us assess the commitment, capacity and track record of our customers to implement them.

We look forward to reading your report on forestry in Sarawak and will follow up on credible evidence of social or environmental impact and will take action where necessary. Perhaps you could let us know when you intend to publish, and where?

Thank you for writing,



Brendan McNamara
Senior Press Officer