



# **HSBC Defence Equipment Sector Policy**

December 2022

# Defence Equipment Sector Policy

## Introduction

HSBC's engagement with the defence equipment industry is underpinned by the principles and values which drive our overall approach to business. We take a long-term and responsible view of our activities and seek to ensure that our potential impacts on communities and on the environment are managed sensitively. We take into account the international nature of our business and the views of our stakeholders, such as shareholders, clients and non-government organisations. We also seek to understand the technical complexities of the various sectors, so that our final approach is both balanced and practical.

The definition of a weapon and establishing which businesses may be involved in its manufacture are particularly challenging. Weapons are usually manufactured from components, necessitating a judgement on whether a component is a material part of a weapon or significant to a supplier's business. Some businesses provide products to a number of sectors, including defence, requiring detailed analysis to appreciate the full implications of any engagement by the bank. Other businesses may provide services rather than products.

This document provides a public summary of our policy.

## Scope

The financial services covered by the policy are lending, other forms of financial assistance such as bonds or guarantees, debt and equity capital markets activities, advisory work, insurance and investments where HSBC acts as a principal investor (ie the investment is owned by us and for our direct benefit). The policy also covers banking relationships with conglomerates operating in the defence equipment sector.

The defence equipment sector consists of businesses that manufacture, sell, use or purchase weapons, and/or related products and services, for either defensive or offensive purposes. It does not include businesses involved in purely sporting or recreational weapons.

## Policy Prohibitions

### Weapons banned by international conventions

HSBC does not provide financial services to clients – including holding companies - that manufacture, sell or use anti-personnel mines or cluster bombs. These weapons can have an indiscriminate impact on civilian populations, sometimes killing and maiming people long after a conflict has ended. HSBC uses the definitions within the 1997 Mine Ban Treaty and the 2008 Convention on Cluster Bombs for guidance in implementation.

Additionally, HSBC does not provide financial services to clients that manufacture, sell, purchase or use

- Biological weapons as defined in the Biological Weapons Convention;
- Blinding laser weapons as defined in the Convention on Certain Conventional Weapons, Protocol IV on Blinding Laser Weapons;
- Chemical weapons as defined in the Chemical Weapons Convention (see also [HSBC Chemical Industry Policy](#)); or
- Non-Detectable fragments as defined in the Convention on Certain Conventional Weapons, Protocol I on Non-Detectable Fragments.

### Other weapons

HSBC does not provide financial services to clients who solely or primarily manufacture or sell other weapons. Other weapons are defined as: weapons which can be clearly identified, such

as guns or missiles; platforms for weaponry, such as tanks and combat aircraft; and material parts of a weapon or a platform for weaponry with no generally accepted non-military use, such as the turret of a tank.

HSBC does not knowingly service any client business activity associated with banned or other weapons.

## **Policy Restrictions**

To ensure that the policy prohibitions are consistently applied in circumstances which may be complex, specific internal clearance is required as follows:

### Weapon-related equipment or services

HSBC undertakes additional checks where requested to provide financial services to clients that manufacture weapon-related equipment or services to ensure compatibility with this policy. These include: major capital equipment which can be associated with other weapons (for example transportation); material parts of a weapon or platform for weaponry with other generally accepted non-military uses (for example, aircraft engines with both commercial and military applications); equipment or services which may support the offensive use of weapons; or personal firearms for non-military purposes.

### Conglomerates

Where a client undertakes a mix of business activities including other weapons business as defined above, HSBC may form a relationship with that client, but will not provide financial services directly to subsidiaries involved with weapons. We will not establish any relationship with a holding company where subsidiaries manufacture or sell anti-personnel mines or cluster bombs or where the conglomerate's business relates primarily to weapons (i.e. more than one third of turnover).

## **Frequently Asked Questions**

Stakeholders have asked HSBC how it implements the Defence Equipment Policy in certain circumstances. The following answers cover the most frequent questions:

Q: Why does HSBC own shares in weapons companies? A: The policy does not apply to investments where HSBC acts on behalf of clients and where, consequently, the underlying investment decision is not made by us. For example, personal clients who buy shares via our electronic dealing account may have their shares registered in HSBC's name to minimise administration, while some corporate clients request that we hold shares on their behalf in nominee accounts. We do not believe that our clients want us to restrict their choice of investments other than where we offer an investment product which excludes certain sectors.

Q: Why does HSBC lend to companies which are evidently weapons companies? A: HSBC exits relationships with clients which do not meet our policy. However, where we agreed a long-term loan which pre-dates the policy or where we inherit such a loan through an acquisition, we may be contractually obliged to continue to provide that loan until the agreed date on which it is due to be repaid. We exit the relationship at the earliest opportunity.

Q: Does the policy mean that HSBC may support business with clients supplying the armed services and with the armed services themselves? A: Yes. We may still provide financial services to clients providing non-weaponry products and services such as unarmed vehicles, property maintenance or payroll systems or to the armed forces where our financial services are not associated with weapons.

## **Summary**

This policy sets out the terms of HSBC's approach to the defence equipment sector. It takes into account the technical complexities of the sector and the way in which the sector engages with financial institutions. The policy is phrased so that it covers future technological advances as far as is possible and, consequently, emphasises the importance of adhering to the spirit of the policy as well as to the letter. As such, the Defence Equipment Policy reinforces HSBC's commitment to responsible banking.