

HSBC irks fund managers over Samling support

Money guardians question the banking giant's standards on social responsibility

*The South China Morning Post
4th April 2007*

Money managers in New York and London who invest only in socially responsible companies say they may sell shares of HSBC Holdings because the bank appears to have violated its own social and environmental standards by arranging Samling Global's initial public offering.

HSBC, along with Macquarie Bank and Credit Suisse, in February arranged the HK\$2.18 billion Hong Kong initial public offering for Samling, a Malaysian logging firm with a chequered record of environmental and social responsibility.

The deal irked managers of ethical funds, known in the industry as socially responsible investment (SRI) funds, who have long been keen backers of HSBC's record.

"I've been a strong supporter of that work, but it does raise concerns if the policies that are being published appear not to be implemented on the ground," said Steve Waygood, the head of SRI engagement at Morley Fund Management.

"It may mean that they are downgraded sufficiently enough to get them removed, to mean that they are no longer acceptable for our sustainable responsible investment funds. That does remain to be seen."

Global banks are increasingly held accountable for not only their own actions but also those of the companies and projects that they finance.

In 2003, a group of international banks, including HSBC and Credit Suisse, signed the Equator Principles, pledging to only finance projects that met certain environmental and social standards. The list has since grown to 46 banks.

While the Equator Principles apply only to project finance, most banks also have internal rules on corporate social responsibility (CSR) so they can market to fund managers who make their investment decisions based on such issues.

Innovest, which researches corporate environmental, social and governance issues for institutional investors, has found plenty of complaints against Samling and said working with the company broke HSBC's own rules.

Innovest claimed Samling was logging primary rainforests without having obtained formal certification for sustainable forest management or proper processes in place to deal with its conflicts with indigenous peoples.

The company had also been accused of illegal logging in Cambodia and Papua New Guinea and was found non-compliant with Forest Stewardship Council standards in Guyana, Innovest said.

"Samling has never been rated by Innovest, but if it were, it would likely be rated a CCC," said Gregory Larkin, an analyst at Innovest. "HSBC's underwriting of Samling's IPO seems to be in clear violation of the bank's own forestry standards."

Although Credit Suisse was the lead underwriter of Samling's initial public offering, HSBC has attracted the most criticism for its role in the deal because of its work to promote its image as an environmental and social champion.

HSBC has won many awards for such activities. It was the first global bank to go "carbon neutral", meaning it buys credits for its carbon emissions. The bank also offers to plant trees on behalf of customers who choose to receive their monthly account statements electronically rather than on printed paper statements.

Many of the fund managers interviewed for this article said HSBC had not been forthcoming with information on the Samling case when it was requested - a departure from the bank's usual proactive relationship with SRI managers.

HSBC declined repeated requests for comment. Credit Suisse said it saw that Samling had cases of damaging social and environmental behaviour in its past as well as under current review, but it was satisfied with the firm's internal policies and overall present behaviour.

"It was after looking at the overall picture that we said yes, we can go with this, it meets our standards," said Alex Biscaro, a Credit Suisse spokesman.

"We have had some discussions with SRIs on this question, but it's certainly not the situation that we have felt, or been put under any, pressure. On the contrary, the talks have been in a very constructive manner."

Macquarie declined to comment.

Adam Kanzer, the managing director and general counsel of Domini Social Investments, said HSBC's involvement in the Samling offering "appears to violate their own forestry sector policies" and has written HSBC a letter seeking an explanation.

"If we determine that the bank does not appear to have credible systems in place to implement its policies, it is possible that they could be removed from our approved list of stocks at some point in the future. Right now, it is too early to tell," Mr Kanzer said.

However, he said HSBC had demonstrated strong environmental policies in the past and generally a company was not dropped for a single infringement.

"Like other investment approaches, SRI is not about defining a list of good guys and bad guys. It is an iterative process based on a variety of judgment calls that change as new information becomes available and as companies change their practices," Mr Kanzer said.

HSBC is a favourite stock with individual investors, and perhaps it is from ordinary investors familiar with the bank's global image that the Samling case draws the most criticism.

"It's not right that a bank like HSBC can be collecting awards in London for its CSR and environmental practices but then, when it comes to the backwaters of the world, their actions are very different" said Dylan Tanner, a US investor with holdings in various SRI funds.

Socially upright

Lipper lists 662 ethical funds with total portfolio exceeding US\$95 billion

Amount raised in the IPO by Samling Global in HK\$: 2.18b

Caption: Innovest says Samling is logging primary rainforests without proper certification and compliance with forest stewardship standards.

Publication - Date: 04.04.2007

Page: 03

Keyword: HSBC, shares, Samling, corporate social responsibility

Edition: 1

Zone: 1

Publication: SCM

Section: Business

Slug Name: hsbc_samling

Word-Count: 938

Pagename: Biz_Companies_2

(The South China Morning Post, Hong Kong's premier-English-language newspaper, reports in its 4 April 2007 edition on ethical fund managers' reactions to HSBC's support of the Samling IPO. Source: www.scmp.com)