

Anthony Barrett
Executive Director of Supervision
Financial Reporting Council
13th Floor Exchange Tower
1 Harbour Exchange Square
London, E14 9GE
Email: complaints@frc.org.uk

20 April 2026

HSBC'S ACCOUNTING & PWC'S AUDITING FOR MATERIAL CLIMATE RISKS

Dear Mr. Barrett,

We are writing as a group of long-term investors to ask the Financial Reporting Council (FRC) to review HSBC's latest financial statements and audit for the year ending on 31st December 2025.

In particular, we are concerned that HSBC's financial statements may not properly capture material climate risks in line with the UK's Companies Act requirements that accounts provide a 'true and fair view'. Linked to this, we lack visibility for how PWC has verified that HSBC has fully evaluated climate-related consequences for its financial position. At a time of rising climate instability and accelerating decarbonisation in key industries, a failure to account for probable losses or liabilities could put investor capital at risk.

Regulatory backdrop

The FRC has been amongst a vanguard of accounting and audit regulators setting out clear guidance for companies to account proactively for climate-related risks in financial statements¹.

The FRC's work has dovetailed the International Accounting Standards Board's (IASB's) efforts to make clear that climate risks should be reflected in company accounts wherever material and that no new standards are required to achieve this. Building on guidance initially published in 2019, and updated in 2020 and 2023, the IASB published Illustrative Examples for how these expectations should be put into practice in December 2025. Example 5 specifically focuses on the need for banks to disclose how they have considered climate-related risks in determining their Expected Credit Loss (ECL) assumptions, one the most judgemental and impactful accounting assumptions that banks make.

In parallel with the FRC and IASB's work, the Bank of England's Prudential Regulation Authority (PRA) has also strengthened oversight of banks' management of climate risks as vital to protecting the safety and soundness of the financial system. In December, the PRA updated its Supervisory Statement (SS 5/25) "*Enhancing banks' and insurers' approaches to managing climate-related risks*", with clear expectations for robust governance and internal controls to prepare for climate-related consequences².

¹ https://media.frc.org.uk/documents/TCFD_disclosures_and_climate_in_the_financial_statements.pdf

² <https://www.bankofengland.co.uk/prudential-regulation/publication/2025/december/enhancing-banks-and-insurers-approaches-to-managing-climate-related-risks-ss>

Critically, the PRA's SS includes expectations for climate-aware financial statements as an essential pillar on which the prudential architecture rests, as explained in the consultation document in 2025³:

"Accounting values are foundational to the banking capital framework. SS [Supervisory Statement] 3/19 did not provide expectations on how banks should include climate-related considerations in their financial reporting. The proposed SS is intended to address this gap to reflect the importance of high quality and consistent accounting of climate-related risk by banks for effective supervision."

In short, a failure to capture the material consequences from climate change and decarbonisation in bank accounts will weaken the capital adequacy framework. Of particular concern is the treatment of ECL assumptions. The PRA expects banks to review whether they have appropriately reflected climate factors in ECLs, encouraging them to adjust loan level assumptions, use post-model adjustments, and maintain vigilance as data improves.

HSBC's disclosures raise concerns

Against this backdrop, we are concerned that HSBC may be failing to ensure proper accounting for climate-related risks, and we lack disclosures from the auditor to allay these concerns. We have been raising these points with the Bank's Audit Committee Chair, Chief Financial Comptroller and Auditor since 2023 but have seen little evidence of progress.

Our starting point is HSBC's conclusion in its last three financial statements that it does not expect climate risks to affect the Bank's financial position in the short to medium term, and makes no adjustments to critical forward-looking assumptions⁴:

"Management has considered the impact of climate-related risks on HSBC's financial position and performance. While the effects of climate change are a source of uncertainty, as at 31 December 2025 management did not consider there to be a material impact on our critical judgements and estimates from the physical, transition and other climate-related risks in the short to medium term."

Given the high degree of uncertainty acknowledged by HSBC, and potentially severe physical and transition risks, combined with HSBC's substantial exposures to both⁵, we are concerned that this conclusion may be excessively optimistic, resulting in an understatement of potentially material climate-related risks in HSBC's balance sheet. The PRA in its review of UK banks was clear about the dangers of complacency in banks⁶: "...many [banks] do not currently consider climate-related risk to be a material risk, yet this conclusion is not based on an adequate assessment of exposures".

Our concerns are reinforced by disclosures in HSBC's climate scenario analysis detailed in the Risk section of the 2025 Annual Report, which raise questions about the quality, completeness and

³ PRA Consultation Paper 10/25: <https://www.bankofengland.co.uk/prudential-regulation/publication/2025/april/enhancing-banks-and-insurers-approaches-to-managing-climate-related-risks-consultation-paper>; Chapter 6, para 2.75

⁴ HSBC 2025 Annual Report, p.275

⁵ HSBC disclosures on transition and physical risk exposure remain partial, and it has chosen not to follow the Basel Committee's climate disclosure framework, which would offer a more complete view of portfolio level financed emissions, target coverage and physical risks. Based on ARA2025, HSBC reports that six high transition risk sectors make up 17.5% (\$111bn) of the total gross carrying amount of wholesale loans and advances to banks and customers. Using HSBC's longer list of eleven high-risk sectors used for scenario analysis (ARA, p. 176), its exposure rises to 50% of the wholesale loan book as of 31 Dec 2025.

⁶ PRA Consultation Paper 10/25

ultimately the reliability of their immateriality conclusion⁷. Examples of assumptions / conclusions that may warrant scrutiny in light of regulatory expectations include:

- **2.6°C scenario (Current Commitments) labelled “moderate” risk.** This appears at odds with scientific consensus that such a pathway would result in severe human and economic costs⁸. Moreover, even under the most severe Climate Risk scenario, HSBC concludes it will be resilient, providing limited supporting disclosures: *“During the five-year period assessed under the Severe Climate Stress scenario, the Group demonstrated robust resilience. Despite the substantial projected increase in climate-related losses, compared with the results observed under our other climate scenarios, the stress test results indicate that we are well-positioned to withstand adverse climate-related conditions and maintain operational stability.”*⁹
- **Insurance as a mitigating factor.** Reliance on insurance as a key mitigant seems to overlook the risk of cover becoming unaffordable or withdrawn, which the insurance industry is increasingly underscoring as the financial costs of climatic change accumulate, with knock-on impacts on asset values and ECLs¹⁰.
- **Physical risk interdependencies not fully captured.** Looking at HSBC’s disclosures of its physical risk assessment, we also identify conclusions that may not be fully supported. For instance, in its 2024 Annual Report, HSBC assumed Hong Kong mortgages (a key area of exposure to flood risk) were protected due to an assumption that 94% of properties are above the ground floor¹¹. Yet flooding of lower floors (or surrounding areas) would likely depress property values impacting ECLs regardless of direct damage. Having raised questions on this specific point last year, these disclosures have been removed from the 2025 Annual Report. However, there is no suggestions that they have been revised, and we note that HSBC continues to conclude that retail mortgages and commercial real estate will face “minimal losses” even under a severe “Downside physical risk” scenario of 4°C warming¹².
- **Transition risks assumed to be immaterial for all high-transition risk industries.** Over the past three Annual Reports (2023-2025), HSBC has repeatedly reduced the level of anticipated ECL across its eleven “high transition-risk” industries under the current and below 2°C scenarios. In 2025, the largest reduction is for construction, contracting and building materials, chemicals and power and utilities. In the 2024 Annual Report these were expected to see over 225% increase in ECLs in medium to long-term. This fell to less than 50% increase in ECLs in the 2025 Annual Report and was pushed out to the long-term from the medium term. In the 2025 assessment, no industry is expected to see more than a 50% ECL increase out to 2040¹³. This more optimistic view on transition risks is not explained apart from a reference to higher prevalence of transition plans allowing HSBC to *“place more emphasis on how our customers expect to transition to net zero within our approach”*¹⁴. We note that HSBC’s targets to reduce financed emissions cover just 3.5% of the wholesale loan

⁷ See HSBC 2025 Annual Report & Accounts (ARA), pp. 173-179.

⁸ See, in particular, recent analysis by Exeter University and Carbon Tracker, “Recalibrating climate risk: aligning damage functions with scientific understanding”, Feb 2026, which details flaws in current economic modelling resulting in material understatement of climate-related damages.

⁹ ARA2025, p. 175

¹⁰ In addition to references provided in Footnote 2 and 3, the Financial Stability Board highlighted how more severe weather events could crystallise in the form of damage to real estate, hitting insurers and banks in its recent report “Assessment of climate-related vulnerabilities” published in January: <https://www.fsb.org/2025/01/fsb-develops-analytical-framework-and-toolkit-to-assess-climate-related-vulnerabilities/>

¹¹ See Footnote 4 to Table “Exposure to flooding (%)”, ARA2024, p. 226

¹² ARA2025, p. 176-177

¹³ ARA2025, Table “Impact on wholesale lending portfolios”, p. 176

¹⁴ ARA2025, p. 176

book, so we cannot see that this will drive sufficient risk reduction given that an estimated 50% of the wholesale loan book is in high-transition risk industries¹⁵.

The results presented to shareholders are partial, making firm conclusions difficult. Nevertheless, these examples suggest excessive complacency in the face of the potential for system-wide irreversible and cascading economic damage from climate change. Given the high degree of uncertainty, guidance from regulators, and potential risks to capital, we would expect the Board to adopt a more prudent approach.

As underlined in recent research by Exeter University and Carbon Tracker¹⁶:

“...climate change introduces forms of risk that exceed the design assumptions of existing economic and financial frameworks. The appropriate response is not to wait for perfect models, but to recalibrate governance toward precaution, robustness, and transparency, recognising that avoiding irreversible outcomes is ultimately less costly than attempting to price them after the fact.”

Investor expectations

In our correspondence with HSBC in 2025, we have been clear that we consider climate risks to be potentially material and therefore asked the Board to:

- Review its methodology for assessing the materiality of climate-related risks, ensuring prudent forward-looking models that reflect the latest science and forecasts for physical and transition risks.
- Ensure climate risks are incorporated into critical accounting assumptions and estimates, including ECLs, with clear disclosures relating to any adjustments (or lack of adjustments).
- Publish sensitivity analysis in the financial statements reflecting more severe climate pathways, consistent with existing accounting rules in the case of uncertain critical assumptions¹⁷.

We further underlined our expectation that PWC set out in its audit report greater detail on how it has considered climate risks in its review of HSBC’s accounting; and how it gained comfort that critical forward-looking assumptions (notably ECLs) were sufficiently prudent to ensure the final accounts provide a true and fair view of HSBC’s financial position.

Having reviewed HSBC’s 2025 Annual Report and Accounts released in February, we were pleased to see some additional disclosures – notably on the inclusion of a new ECL sensitivity analysis. However, the result of less than \$50 million ECL risk, equivalent to 0.47% total ECLs for loans and advances to customers, reinforces our concern that HSBC is overly optimistic in the assumptions it uses. We would point to three weaknesses with this disclosure:

¹⁵Latest data on target coverage relates to end of Dec 2024. Source: Footnote 1 to the table “On-balance sheet financed emissions — wholesale credit lending and project finance” in ARA2025, p. 47.

¹⁶ Exeter University and Carbon Tracker (Feb 2026)

¹⁷ Several IFRS standards require sensitivity disclosures, notably in IAS 1 para 125–133, which requires entities to disclose information about the assumptions and other sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

- The sensitivity appears to be partial – considering transition and physical risks for the wholesale portfolio and physical risks for largest UK and HK retail mortgage portfolios only.
- There is no disclosure on the nature of the sensitivity analysis, including what assumptions were used, which makes the results hard to interpret. As noted previously, we have reservations over the rigour of the stress testing undertaken by HSBC.
- The sensitivity disclosure is presented outside the audited financial statement note on ECL calculation and outside the audited disclosure on credit risk in the Risk Review, where HSBC details all its other ECL sensitivity analyses¹⁸. We are unclear why HSBC would not have integrated its climate sensitivity into the appropriate section. PWC makes no mention of its consideration of this sensitivity analysis.

In light of the ongoing lack of disclosures by HSBC and PWC on matters we perceive to be material to investors' understanding of the Bank's capital resilience, we are writing to ask the FRC to review HSBC's accounts and audit to determine whether they meet the required standard¹⁹.

We would also like to point out a related concern that following the appointment of Brendan Nelson as Chairman of the Board at HSBC at the end of 2025, his ongoing role as Audit Committee Chair introduces potential conflicts of interest and is not in keeping with recommended separation of these roles in the UK Corporate Governance Code.

Finally, as highlighted by the PRA in its recent reviews of banks' accounting for climate risk, HSBC is not alone in concluding these factors are not material without offering more detailed explanations. We would welcome a thematic review by the FRC of whether and how financial institutions are accounting for material climate risks in keeping with accounting and Company Law requirements.

We hope this letter provides a helpful insight into rising investor concern over climate-related accounting disclosures and look forward to hearing back whether the FRC will investigate the points raised.

Yours sincerely,

Natasha Landell-Mills, CFA, Partner & Head of Stewardship
Sarasin & Partners LLP

Rikke Berg Jacobsen, Head of ESG
AkademikerPension

Katharina Lindmeier, Head of Sustainability Strategy
Nest Corporation

Owen Thorne, RI Manager
Merseyside Pension Fund

¹⁸ ARA2025, pp. 115-124

¹⁹ As an indication of investors' view that this information is material to investment and stewardship decision-making, we would draw your attention to the recently updated report published by the Institutional Investor Group on Climate Change "Investor expectations: integrating climate-related risks and uncertainties in Financial Statements" (Dec 2025)
<https://www.iigcc.org/hubfs/2025%20resources%20upload/IIGCC%20Investor%20Expectations%20on%20Climate%20Accounting%20vF.pdf>

Rebeca Coriat, Head of Stewardship
Lombard Odier Investment Management

Carlota Esguevillas, Head of Sustainable Investment
Edentree Investment Management

[Investor – name redacted]

Cc:

Ms Sarah Breeden, Deputy Governor, Financial Stability, Bank of England

Mr. Brendan Nelson, Chair, HSBC

Matthew Falconer, Lead Audit Partner for HSBC, PWC