

# Our Governance Framework



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# Introduction

Founded in 1865 to finance trade between Asia and the West, today HSBC is one of the world's largest banking and financial services organisations serving around 38 million customers worldwide.

Headquartered in London, HSBC operates through long-established businesses with an international network spanning 66 countries and territories in both established and emerging markets. Our international network covers 90 per cent of global GDP, trade and capital flows.

Throughout our history we have been where the growth is, connecting customers to opportunities. We enable businesses to thrive and economies to prosper, helping people fulfil their hopes and dreams and realise their ambitions.

This document describes how we operate in order to serve our customers and the wider communities in which we operate. It outlines the robust risk management, organisational and governance structures and processes which help us meet our responsibilities to stakeholders and protect the business.



# How we are organised

Our holding company, HSBC Holdings plc, is a public limited company incorporated in England and Wales. Headquartered in London, HSBC is listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges. The entities that form the HSBC Group provide a comprehensive range of financial services.

HSBC has a matrixed management structure, by which we mean that the group is organised firstly by its global businesses and global support functions as well as by a regional and country oversight model. It uses a global subsidiary model, with locally incorporated subsidiaries complemented by branches in certain territories. The HSBC structure is also influenced by the regulatory framework which applies to it, with many of the group entities being locally regulated.

This global structure helps us to address international, systemic challenges – such as financial crime risk – in a consistent and more effective way. It also helps us ensure that each business and function adheres to our culture, the required conduct outcomes and values, with the tone and direction set by the Board through the leadership of the Group Chief Executive.

## **Our Global Businesses**

We serve around 38 million customers worldwide through our four Global Businesses:

### **Commercial Banking**

Serves approximately 1.7 million customers in 53 countries and territories. Our customers range from small businesses focused primarily on their domestic markets to corporates operating globally. Services provided include working capital, term loans, payment services and international trade facilitation, as well as expertise in mergers and acquisitions, and access to financial markets.

### **Global Banking and Markets**

Serves approximately 4,100 clients in more than 50 countries and territories. It supports major government, corporate and institutional clients with a comprehensive range of transaction banking, financing, advisory, capital markets and risk management services.

### **Global Private Banking**

Serves high net worth individuals and their families, including those with international banking needs. We provide a full range of private banking services, including Investment Management, which includes advisory and brokerage services, and Private Wealth Solutions, which comprises trusts and estate planning, to protect and preserve wealth for future generations.

### **Retail Banking and Wealth Management**

Serves close to 37 million customers worldwide through four main businesses, Retail Banking, Wealth Management, Asset Management and Insurance.

Each of the chief executives of our Global Businesses reports to our Group Chief Executive, who in turn reports to the board of HSBC Holdings plc



## **Our Global Functions**

Our business is supported by a number of corporate functions and HOST, the HSBC Operations, Services and Technology teams. The functions include Company Secretary, Global Communications, Finance, Compliance, Human Resources, Internal Audit, Legal, Marketing, Risk and Strategy and Planning and Sustainability. HOST provides real estate, procurement, technology and operational services to the business

## **Legal entity framework**

The Global Businesses and Global Functions are underpinned by our legal entity framework, which is our network of subsidiary companies that make up the Group globally. Each of our subsidiaries has a board and management structure appropriate for its activities and complexity.

To strengthen accountability and flows of information, we have a framework of eight Principal Subsidiaries who each take responsibility for the oversight of Group companies in their region. They are in turn accountable to the board of HSBC Holdings plc.

Our network of companies is additionally supported by the Global Company Secretarial function.

## **Regulatory framework**

HSBC operates in a highly regulated environment. While HSBC Holdings plc is not itself a regulated entity, it owns directly or indirectly a number of operating subsidiaries which are regulated and supervised as banks, insurance companies or securities firms in the countries in which they operate. The resulting obligations include requirements in respect of governance, capital, liquidity, risk management, conduct, financial crime and systems and controls among other things. In addition, the HSBC Group is subject to the consolidated supervision of the UK Prudential Regulation Authority.

The HSBC Group is a Globally Systemically Important Bank as defined by the Financial Stability Board. As such it is subject to higher regulatory requirements, including additional capital requirements and the requirement to submit a Resolution plan annually. A number of HSBC subsidiaries are also considered to be Domestic Systemically Significant Banks in their own jurisdictions and subject to the requirements that flow from this.

The Group and its subsidiaries are also subject to a range of other regulatory requirements and to the specialist regulatory and supervisory bodies

applying them, for example in relation to data privacy.

HSBC Holdings plc, as a listed legal entity, must comply with the relevant requirements set out in the listing rules of the five stock exchanges on which it is listed (Bermuda, Hong Kong, London, New York and Paris) as well as UK company law.

## Risk management structure

HSBC seeks to maintain a conservative and consistent approach to risk, helping to ensure we protect customers' funds, lend responsibly and support economies. By carefully aligning our risk appetite to our strategy, we aim to deliver sustainable long-term shareholder returns.

All employees are responsible for the management of risk, with the ultimate accountability residing with the Board. We have a strong risk culture, which is embedded through clear and consistent communication and appropriate training for all employees. A comprehensive risk management framework is applied throughout the Group, with governance and corresponding risk management tools. This framework is underpinned by our risk culture and reinforced by the HSBC values and required conduct outcomes.

Our Global Risk function oversees the framework and is led by the Group Chief Risk Officer, an executive director. It is independent from the global businesses, including our sales and trading functions, to provide challenge, appropriate oversight and balance in risk/reward decisions. HSBC's risk appetite defines our desired forward-looking risk profile, and informs the strategic and financial planning process.

It is articulated in our risk appetite statement, which is approved by the Board. Key elements include:

- ◆ risks that we accept as part of doing business, such as credit risk and market risk;
- ◆ risks that we incur as part of doing business, such as operational risk, which are actively managed to remain below an acceptable tolerance; and
- ◆ risks for which we have zero tolerance, such as knowingly engaging in activities where foreseeable reputational risk and misconduct has not been considered

Internal stress tests are an important element in our risk management and capital management frameworks. They include potential adverse macroeconomic, geopolitical and operational risk events, and other potential events that are specific to HSBC. The selection of scenarios reflects our top and emerging risks identification process and our risk appetite. Stress testing analysis helps management understand the nature and extent of vulnerabilities to which the bank is exposed.

We operate a comprehensive stress testing programme to help ensure the strength and resilience of HSBC, taking part in regulators' as well as our own stress tests.

Our top and emerging risks framework helps enable us to identify current and forward-looking risks so that we may take action to either prevent them materialising or limit their effect. Top risks are those that may have a material impact on the financial results, reputation or business model of the Group in the year ahead. Emerging risks are those that have large unknown components and may form beyond a one-year horizon. If these risks occurred, they could have a material effect on HSBC.

If you would like to read more about **how we are organised**, please see the following:

<https://www.hsbc.com/investors/investing-in-hsbc>

<https://www.hsbc.com/our-approach/risk-and-responsibility>

# How we are governed

HSBC is committed to high standards of corporate governance. We have a comprehensive range of policies and systems in place to ensure that the bank is well-managed, with effective oversight and control.

HSBC complies with the applicable provisions of the UK Corporate Governance Code and the requirements of the Hong Kong Corporate Governance Code.

## **The board of HSBC Holdings plc and its role**

The Board aims to promote HSBC's long-term success, deliver sustainable value to shareholders and promote a culture of openness and debate. Led by the non-executive Group Chairman, it sets the Group's strategy and risk appetite. It also approves capital and operating plans for achieving strategic objectives on the recommendation of management.

The Board is comprised of a majority of independent non-executive directors. Both the Group Chief Executive and the Group Chief Financial Officer are required to be members of the Board. The Group Chief Risk Officer is also a member of the Board.

The role of the independent non-executive directors is to challenge and scrutinise the performance of management including executive directors and to help develop proposals on strategy. They also review the performance of management in meeting agreed goals and objectives and monitor the Group's risk profile.

## **Powers of the Board**

In exercising its duty to promote the success of the Company, the Board is responsible for overseeing the management of HSBC globally and, in so doing, may exercise its powers, subject to any relevant laws, regulations and HSBC Holdings plc' articles of association.

The Board is committed to effective engagement with all of its stakeholders. The Board receives reports from management on issues concerning the environment, community, suppliers, the workforce and shareholders, which it takes into account in discussions and decision making. Additional, non-financial disclosures detailing the policies pursued by HSBC in relation to the workforce, the environment, social matters, human rights, anti-corruption and anti-bribery matters are included in the Annual Report.

Certain matters, including the review and approval of annual operating plans, risk appetite, performance targets, credit or market risk limits and any substantial change in balance sheet management policy, require Board approval before implementation. Acquisitions, disposals, investments, capital expenditure or realisation or creation of a new venture which are above certain limits also require prior Board approval.

## **Operation of the Board**

The Board regularly reviews reports on performance against financial and other strategic objectives, key



business challenges, risk, business developments, investor relations and the Group's relationships with its stakeholders. It also considers presentations on strategy and performance by each of the global businesses and across the principal geographical areas.

All of HSBC's activities involve the measurement, evaluation, acceptance and management of risk or combinations of risks. The Board, advised by the Group Risk Committee and the Financial System Vulnerabilities Committee, promotes a strong risk governance culture which shapes the Group's attitude to risk. The Board and these committees support the maintenance of a strong risk management framework.

Under the direction of the Group Chairman, the Group Company Secretary is responsible for ensuring good information flows within the Board and its committees and between senior management and non-executive directors, as well as facilitating induction and assisting with professional development as required.

The Group Chairman meets with the independent non-executive directors without the executive directors in attendance after each Board meeting and otherwise, as necessary. The directors are encouraged to have free and open contact with management at all levels and full access to all relevant information. When attending off-site Board meetings and when travelling for other reasons, non-

executive directors are encouraged to visit local business operations and meet local management.

Directors may take independent professional advice, if necessary, at HSBC Holdings plc's expense.

### Requirements for director appointments

Appointments to the Board are made on merit and candidates are considered against objective criteria, having regard to the benefits of a diverse board. A rigorous selection process is followed for the appointment of directors and senior employees. A structured training programme exists for both directors selected from external sources and senior employees who are appointed to the Board and the boards of other Group companies.

Directors are nominated for annual re-election by shareholders subject to continued satisfactory performance based upon an assessment by the Group Chairman and the Nomination & Corporate Governance Committee.

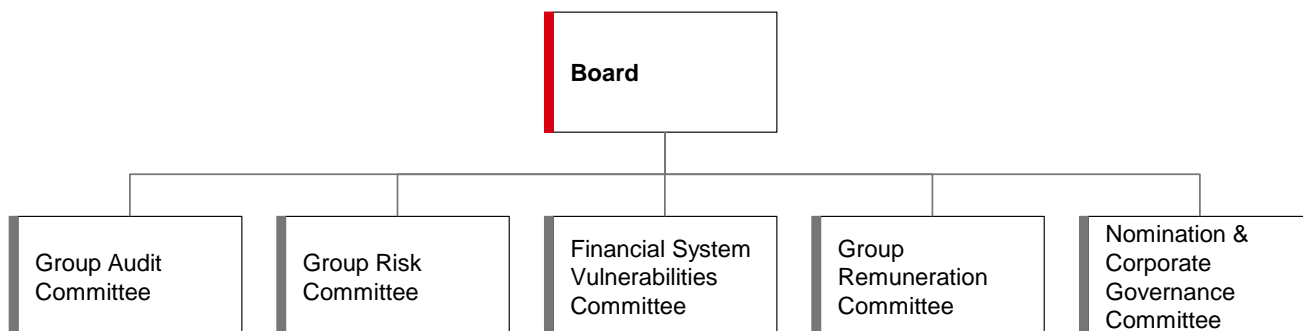
Non-executive directors are appointed for an initial three-year term and, subject to re-election by shareholders at each Annual General Meeting, are typically expected to serve two three-year terms. The Board may invite a director to serve additional periods. Any term beyond six years is subject to particularly rigorous review.

No directors are involved in deciding their own remuneration.

### Role of the Board committees

Committees are smaller groups delegated by the full Board to provide advice on and oversight of HSBC's different activities. Each standing committee is chaired by a non-executive Board member and has a remit to cover specific topics.

Only independent non-executive directors are able to be members of Board committees, except for the Financial System Vulnerabilities Committee, where the members are either independent non-executive directors or co-opted experts who are non-director members.





**Group Audit Committee** reviews matters relating to financial reporting and the effectiveness of internal financial control systems. It also safeguards the independence of the Group's internal audit function and oversees its performance as well as monitoring the effectiveness of the external auditor. It is also responsible for overseeing the Group's Whistleblowing Policy.

**Group Risk Committee** undertakes oversight of enterprise risk management, risk governance and internal control systems (other than internal financial control systems). In forming a holistic view of risk, it is supported by the Financial System Vulnerabilities Committee.

**Financial System Vulnerabilities Committee** has responsibility for oversight of matters related to financial crime and system abuse, in particular anti-money laundering, sanctions, terrorist financing and proliferation financing and anti-bribery and corruption.

**Group Remuneration Committee** sets the overarching principles, parameters and governance framework of the Group's remuneration policy and the remuneration of executive directors and other senior Group employees. It regularly reviews the effectiveness of the remuneration policy in the context of effective risk management.

**Nomination & Corporate Governance Committee** leads the process for Board appointments and approves appointments to the boards of directors of major subsidiaries. It oversees the Group's corporate governance framework to ensure it is consistent with best corporate governance practices.

## Board performance and accountability

HSBC's Board and its committees are subject to regular, independent evaluation of their effectiveness. All Board members also undergo regular performance reviews. In the case of executive directors, this helps determine the level of variable pay they receive each year.

In addition, the Board is directly accountable to our shareholders. Shareholders vote at each Annual General Meeting on whether to re-elect individual directors.

## Relationship between the Board and the senior executive team

The roles of Group Chairman and Group Chief Executive are separate, with a clear division of responsibilities between the running of the Board by the Group Chairman and executive responsibility for running HSBC's business, which is undertaken by the Group Chief Executive.

The Board delegates day-to-day management of the business and implementation of strategy to the Group Chief Executive. To assist the Group Chief Executive in his day-to-day management of the Group, he is supported by recommendations and advice from the Group Management Board, an executive forum comprising of senior HSBC management which he chairs.

There are special meetings of the Group Management Board that provide oversight of risk matters (the Risk Management Meeting, chaired by the Group Chief Risk Officer) and of financial crime risk (the Financial Crime Risk Management Meeting, chaired by the Group Head of Financial Crime Risk).

## Principal Subsidiaries

The eight Principal Subsidiaries are:

<b>The Hongkong and Shanghai Banking Corporation Limited</b>  Asia-Pacific	<b>HSBC Bank plc</b>  Europe, Bermuda (excluding Switzerland and UK ring-fenced activities)	<b>HSBC UK Bank plc</b>  UK ring-fenced bank and its subsidiaries	<b>HSBC Bank Middle East Limited</b>  Middle East
<b>HSBC North America Holdings Inc</b>  United States	<b>HSBC Latin America Holdings (UK) Limited</b>  Mexico and Latin America	<b>HSBC Bank Canada</b>  Canada	<b>HSBC Private Banking Holdings (Suisse) SA</b>  Switzerland/Luxembourg



To strengthen accountability and flows of information, these Principal Subsidiaries each take responsibility for the oversight of Group companies in their region through the Subsidiary Accountability Framework.

There is close interaction between the Board and the Principal Subsidiary boards and their respective committees, including the sharing of minutes and a requirement for certain appointments to subsidiary

boards to be approved by the Group's Nomination & Corporate Governance Committee.

These formal processes are complemented by regular informal dialogue between both the Group Chairman and Group committee chairs with chairs of each of the Principal Subsidiaries and those of their respective committees, including through various forums held periodically.

If you would like to read more about **how we are governed**, please see the following:

<https://www.hsbc.com/our-approach/corporate-governance>

# How we communicate

Our shareholder communication policy, set by the Board, is driven by our guiding principle of courageous integrity and the HSBC values:

- ◆ Dependable and do the right thing;
- ◆ Open to different ideas and cultures;
- ◆ Connected to customers, communities, regulators and each other.

The same principles and approach apply to our communications with all our stakeholders.

Extensive information about our activities is provided on our website, [www.hsbc.com](http://www.hsbc.com), including copies of our annual reports, interim reports, interim management statements, stock exchange announcements, environmental, social and governance updates and other relevant documents or information used in communicating with investors and analysts.

## Reporting for shareholders

We believe that an informed, constructive dialogue between the Board and shareholders is important to good corporate governance.

We aim to communicate with shareholders in a way that meets their needs. New shareholders are consulted on their preference to receive documents or information from us either by means of a website or in hardcopy form.

We focus on open communication and fair disclosure, with emphasis on the integrity, timeliness and relevance of the information provided.

HSBC's financial year is the calendar year up to and including 31 December. Annual results are usually

announced at the end of February or early in March of the following year. Interim results are usually announced towards the end of July or early in August. Quarterly updates are also provided for the first and third quarters. Shareholders can register to see HSBC's results presented live via a webcast.

## Shareholder engagement

To complement the regular publications provided on our website, there is regular dialogue with institutional investors.

Directors are encouraged to develop an understanding of the views of major shareholders.

Enquiries from individuals on matters relating to their shareholdings and HSBC's business are welcomed. For individual shareholders, general enquiries should be directed to our registrar, Computershare, in the first instance.

Any individual or institutional investor can make an enquiry by contacting the Investor Relations team, Group Chairman, Group Chief Executive, Group Chief Financial Officer and Group Company Secretary. Our Senior Independent non-executive Director is also available to shareholders if they have concerns that cannot be resolved or for which the normal channels would not be appropriate. He can be contacted via the Group Company Secretary at 8 Canada Square, London E14 5HQ.

## Board, committees and subsidiary interaction

In addition to the regular board and committee meetings, there is extensive contact at all layers of the

Group which complements the formal meeting and approval processes.

We have defined information cascade and escalation procedures between the HSBC Holdings plc board, the Principal Subsidiary boards, and their respective board committees.

Our Group Chairman interacts regularly with the chairs of the Principal Subsidiaries, including through the Chairman's Forum which takes place at various times throughout the year, which is held to discuss a wide array of issues.

The chairs of each of the Group Audit Committee, Group Risk Committee and Group Remuneration Committee also have a regular dialogue with the respective committees of the Principal Subsidiaries to ensure an awareness and co-ordinated approach to key issues. This interaction is reinforced through Audit and Risk Committee Chairs' Forum and the Remuneration Committee Chairs' Forum. The chairs of the Principal Subsidiaries committees globally are invited to attend the relevant forum, which are held several times a year, to raise and discuss current and future global issues.

Board members are encouraged to, and do, make visits to the regions and attend Principal Subsidiary meetings as guests. Similarly, directors from the regions are invited regularly to attend committee meetings at a Group level.

If you would like to contact us or read more about **how we communicate**, please see the following:

**Individual shareholders:**

Computershare Investor Services PLC, The Pavilions, Bridgwater Road, Bristol BS99 6ZZ, United Kingdom

Telephone: +44 (0) 370 702 0137

E-mail via website:

[www.investorcentre.co.uk/contactus](http://www.investorcentre.co.uk/contactus)

[www.investorcentre.co.uk](http://www.investorcentre.co.uk)

**Institutional shareholders:**

London Investor Relations team

HSBC Holdings plc, 8 Canada Square, London, E14 5HQ, United Kingdom

E-mail: [investorrelations@hsbc.com](mailto:investorrelations@hsbc.com)

<https://www.hsbc.com/our-approach/corporate-governance>

<https://www.hsbc.com/investors>

For further information about HSBC generally, please visit our website, [www.hsbc.com](http://www.hsbc.com)



