

London, 28 February 2020

Mr José Viñals
Chairman
Standard Chartered PLC
1 Basinghall Avenue
London EC2V 5DD

Dear Mr Viñals,

Standard Chartered should publicly disclose their coal loan exposures and significantly increase the applied risk-weighting of these coal loans

We write as trustees of the Children's Investment Fund Foundation (CIFF), one of the largest funders of climate change-related grants in the world with current assets of \$6bn.

Given the vulnerability of the banking sector to climate-related financial risks, it is critical that Standard Chartered takes ambitious action to phase out its financing for fossil fuels, in accordance with its commitment under the Principles for Responsible Banking to align its activities with the goals of the Paris Agreement.

Over the last three years, financial institutions have channelled \$745bn in lending and underwriting to companies developing coal plants¹, and remain key counterparties for financing of their new projects. Indeed, despite the potency of carbon emissions from coal-fired generation (40% of fossil fuel emissions globally), the Global Coal Exit List has identified over 1,000 new coal power stations in the pipeline, representing a ~30% increase of the current coal power production. Such an increase in capacity must be avoided.

Global banks must stop financing of these new projects and the firms that promote them, as a matter of urgency. In addition, banks' overall lending policies should be well defined to minimise climate-related financial risks.

In this context, we believe Standard Chartered should step-up its commitment to reduce coal exposures and financing. The bank recently communicated its commitment to:

- Not directly finance any new coal power plants (or expansions), including three planned coal-fired projects in Asia;
- To only provide product and service support to businesses that generate less than 10% of earnings from thermal coal by 2030.

These targets do not reflect the urgency of halting coal energy production and are a significantly weaker response than that of other major European banks. For example, by 2025 ING will no longer finance clients in the utility sector that are over 5% reliant on coal power, compared to Standard Chartered's policy of over 60% dependent in the same year.

The inadequacy of these interim targets is particularly acute given Standard Chartered's starting point. According to the latest data released by BankTrack, Standard Chartered remains the UK's number one supporter of some of the world's most aggressive coal plant expansion companies, providing \$2.6bn in

¹ See https://coalexit.org/sites/default/files/download_public/COP25_PR3.pdf

corporate lending and underwriting in Q1 to Q3 2019 alone. Since 2017, Standard Chartered has provided \$8.5 billion in financing enabling the expansion of coal power.²

Standard Chartered's coal power financing is highly likely to become non-performing and the assets stranded due to low plant utilisation, as zero-marginal cost renewables grow rapidly, as well as tightening regulations on air pollution and carbon emissions globally.

The increasing risk of economic loss, reputational harm and litigation demonstrates that Standard Chartered should materially increase the risk-weighting of these coal exposures, most likely in combination with loan-loss provisioning. We also expect regulators to penalise the promoting companies with appropriate measures reflecting the implied increase in climate-related financial risk and the long-term damage to the global economy.

The Basel Committee approach to standardised risk weights relating to claims on corporates tend to range from 20% (AAA-AA rated loans) to 150% for assets below BB-, and 250% for equity and non-performing loans.

In our view, Standard Chartered should:

1. Provision against existing coal-related exposures and recognise a **risk-weighting of 250%** of their net book value, given the high risk of default of the underlying business. Coal loans are highly likely to become non-performing and hence should be treated as high risk and equity in nature in their risk assessment and the capital weightings assigned by banks and central bank regulators.
2. Increase the risk-weighting on the other borrowing and exposures of the parent company promoting coal power projects, to factor in the climate-related risk caused by their business.

For example, according to the State Bank of India, Indian banks had about \$25bn of stressed loans to coal power generators in 2018. Slowing economic growth and collapsing power demand in 2019 increases the risk of deeper losses. This trend will almost certainly spread to other Asian markets as they transition to low-carbon energy sources. Evidence from the EU is also a signpost to the future in Asia. In 2019, 79% of EU coal generators ran at a loss and could lose €6.6 billion³, due primarily to rapid declines in plant utilisation and higher carbon costs.

Further, central banks globally are likely to apply climate change stress tests to the banks which they regulate. The Bank of England has already announced it will conduct a full climate risk stress test for UK banks in 2021. Its recent insurance stress test assumes losses of between 55% and 65% for coal power equity investment and between 40% and 45% for coal mining equity investment.⁴

In this context, it is also relevant for stakeholders to understand the bank's current exposure to assets linked to coal-power companies. Disclosing the amount and percentage of carbon-related assets relative to total assets is one of the recommendations of the Task Force on Climate-related Financial Disclosures.

² See https://www.banktrack.org/download/the_uk_dirty_coal_secret/the_uk_dirty_coal_secret_report.pdf

³ See <https://www.carbontracker.org/reports/apocalypse-now/>

⁴ Bank of England Prudential Regulation Authority, General Insurance Stress Test 2019, 18 June 2019, <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2019/general-insurance-stress-test-2019-scenario-specification-guidelines-and-instructions.pdf>.

We therefore call upon Standard Chartered to:

- 1. Take more tangible actions to end provisioning or renewal of general corporate financing, underwriting and other financial services to companies with significant coal activity by setting tougher reduction thresholds to 2030⁵;**
- 2. Commit to reduce these thresholds over time to bring them to zero by 2030 in OECD and European countries and by 2040 elsewhere, in line with the Paris Agreement;**
- 3. Take all necessary steps to give the appropriate disclosure to the market of your exposures to coal assets and financing, and the risk-weightings associated with this exposure, so that the market is able to properly assess risk and compliance with the communicated ESG policy.**

We also call upon regulators to review and publicly disclose the appropriate risk-weighting of coal financing to recognise the high risk for banks and their stakeholders inherent in funding coal power globally.

Given the clear financial risks presented by coal power and the extent of its contribution to climate change, we consider that the actions above are of material, board-level concern and in the long-term interests of Standard Chartered and its shareholders.

Yours faithfully,



Graeme Sweeney
Chairman CIFF



Chris Hohn
CIFF Trustee

Copies to: Mark Carney, Governor Bank of England; Christine Lagarde, President European Central Bank; Bill Winters, CEO Standard Chartered; Paul Taylor, CEO Fitch Ratings; Doug Peterson, CEO S&P Global; Ray McDaniel, CEO Moody's Corp.

⁵ As a minimum, you should match RBS' commitment to stop all lending to, and underwriting of, companies with more than 15% of their activities related to coal by the end of 2021 (and companies with greater than 20MT annual coal production or 10GW existing coal capacity), unless they have in place a transition plan that is consistent with the Paris Agreement. You should also halt lending to, and underwriting of, major oil-and-gas producers without a transition plan by 2021.