

Ethical screening of: Xero
For: Third Sector Accountants
Date: 26th September 2019

Company overview:

Xero is a business software company, established in 2006 in New Zealand. Its main product is an online accounting service, which was one of the first examples of “cloud computing”. From the beginning, the company was interested in gathering individual accounting data in a central location, so that it could be aggregated and used later. The company listed on the New Zealand Stock Exchange soon after starting up, in 2007¹, and added a listing on the Australian Securities Exchange (ASX) in 2012. In 2018, Xero consolidated its listing on the ASX.

According to its website, Xero has 1.8 million subscribers in more than 180 countries. It has a turnover of AUS\$552 million and has offices in New Zealand, Australia, Canada, Hong Kong, Singapore, South Africa, the UK and the US.²

Ownership:

Xero Ltd is a public company listed on the Australian Securities Exchange and incorporated in New Zealand. According to its 2019 Annual Report, shareholders with a stake higher than 10% are³:

- HSBC Custody Nominees (Australia) Limited (19.57%)
- J.P. Morgan Nominees Australia Limited (16.27%)
- Anna Margaret Clare Drury, Rodney Kenneth Drury and Scott Moran (12.59%, founders)
- Citicorp Nominees Pty Limited (10.10%)

Ethical Consumer rating (including what EC identifies as the main ethical issues with this company):

Xero receives an Ethiscore of **9 out of a possible 15** on Ethical Consumer’s database.

It loses a whole mark under the following Ethical Consumer ratings categories: Environmental Reporting, Political Activities and Anti-Social Finance.

It loses half a mark under the following Ethical Consumer ratings categories: Climate Change, Human Rights, Workers’ Rights and Arms & Military Supply.

Most of the marks lost were due to the shareholdings of HSBC, JPMorgan and Citigroup, which were criticised by Ethical Consumer under these categories.

It was not rated for Supply Chain Management as it did not produce physical goods.

Address:

Group headquarters

Xero One, 19-23 Taranaki St, Te Aro, Wellington 6011, New Zealand

UK Headquarters

Bank House, 171 Midsummer Boulevard, Milton Keynes, MK9 1EB

1 [www.businessinsider.com/the-untold-story-how-xero-took-a-band-name-and-changed-accounting-for-a-million-companies-2017-9?](http://www.businessinsider.com/the-untold-story-how-xero-took-a-band-name-and-changed-accounting-for-a-million-companies-2017-9?r=US&IR=T)

2 www.xero.com/uk/about/media/factsheet/

3 Xero, 2019 Annual Report, www.xero.com

Website:

www.xero.com

Email:

NA

Telephone:

NA

Ethical Consumer database records:

Environment

Environmental Reporting

Worst Ethical Consumer rating for Environmental Reporting (September 2019)

In September 2019 Ethical Consumer viewed the Xero website for the company's environmental policy or report. A website section titled Environmental Sustainability was found. An environmental policy was deemed necessary to report on a company's environmental performance and set targets for reducing its impacts in the future.

The section discussed the company's electricity consumption, office recycling, energy sourcing for its data centres and sustainable sourcing practices. It made reference to statistics from 2018 and listed the following goals for the company:

- reduce waste and increase recycling
- reduce electricity consumption in buildings
- evaluate our greenhouse gas emissions footprint
- reduce greenhouse gas emissions by encouraging alternative modes of transport for employees
- minimise carbon intensive travel options such as air travel, and encourage video and teleconference style meetings
- enhance our procurement processes so that social and environmental impacts are a key consideration in purchasing decisions (e.g. minimising the carbon impact of transportation)

The website section referred to the company's 2019 Annual Report for more information, but the report did not add significantly different information.

A strong policy would include two future, quantified environmental targets, demonstration by the company that it had a reasonable understanding of its main environmental impacts, be dated within the previous two years and have its environmental data independently verified.

Xero did not have any future, quantified environmental targets and its environmental data was not independently verified, and therefore it received Ethical Consumer's worst rating for Environmental Reporting. It lost a whole mark under this category. (ref: 1)

Climate Change

Dodgy deals on BankTrack (September 2019)

In September 2019 Ethical Consumer conducted a search of HSBC on BankTrack's website, www.banktrack.org. BankTrack stated that HSBC had been linked to many "Dodgy Deals" as a financier or financial advisor. These were projects and activities that BankTrack considered problematic in the light of the sustainability commitments of this bank, including:

- Cerrejón coal mine, Colombia
- Israeli illegal settlements, Israel
- Line 3 Pipeline Replacement Project (L3RP), United States
- Long Phu, Vietnam
- Solwara 1 Deep Sea Mining Project, Papua New Guinea
- Trans Mountain Pipeline Expansion project (TMEP), Canada
- Tufanbeyli coal power plant, Turkey
- Vinh Tan III, Vietnam

Many of these projects involved the extraction of fossil fuels, an industry considered by Ethical Consumer to have a large climate change impact. HSBC therefore lost half a mark under the Climate Change category. The list also included projects that were linked to human rights abuses and plantation projects involving illegally cleared forests, losing HSBC half a mark under the Human Rights and Habitats and Resources categories respectively. (ref: 3)

Dodgy deals on Banktrack Citigroup (September 2019)

In September 2019, Ethical Consumer viewed Citigroup's profile on www.banktrack.org. According to this profile, Citigroup were involved in multiple projects considered by Ethical Consumer to be problematic:

- Dakota Access Pipeline, USA
- Keystone XL Pipeline, USA
- Line 3 Pipeline Replacement Project, USA
- Trans Mountain Pipeline Expansion project, Canada

All four of these projects were pipeline projects, for the piping of oil or gas which are finite resources with a considerable carbon impact. In the case of the Dakota pipeline, this project has been widely criticised for its violations against Indigenous rights as the pipeline path crosses Native American sacred sites, and for threatening water supply at the Standing Rock Sioux reservation. The Trans Mountain pipeline is designed to expand the tar sands industry in Canada, an energy source which has been dubbed by many as 'Dirty Oil', owing to its energy intensive extraction process.

Citigroup therefore lost marks under Habitats and Resources, Human Rights and Climate Change. (ref: 15)

Shareholdings in criticised companies (September 2019)

In September 2019 Ethical Consumer viewed the top holdings of HSBC, taken from its SEC Filing Form 13F report with the Securities and Exchange Commission for the quarter ended 30 June 2019.

According to this form, HSBC held shares in Walmart, Amazon, Coca Cola, Boeing, McDonalds, and Exxon Mobil.

These companies had criticisms in the following Ethical Consumer categories: Climate Change, Habitats and Resources, Pollution and Toxics, Animal Testing, Animal Rights, Factory Farming, Arms and Military Supply, Human Rights, Workers' Rights, Irresponsible Marketing, Anti-social Finance, Boycott Call and Political Activities.

HSBC therefore lost half a mark in each of these categories. (ref: 4)

Shareholdings in criticised companies JPMorgan Chase and Company (September 2019)

In September 2019 Ethical Consumer viewed the top holdings of JPMorgan Chase and Company, taken from its SEC Filing Form 13F-HR report with the Securities and Exchange Commission for the quarter ended 30 June 2019.

According to this form, JPMorgan held shares in Walmart, Amazon, Coca Cola, Boeing, McDonalds, and Exxon Mobil.

These companies had criticisms in the following Ethical Consumer categories: Climate Change, Habitats and Resources, Pollution and Toxics, Palm Oil, Animal Testing, Animal Rights, Factory Farming, Arms and Military Supply, Human Rights, Workers' Rights, Irresponsible Marketing, Anti-social Finance, Boycott Call and Political Activities.

JPMorgan therefore lost half a mark in each of these categories.

Investments in companies criticised by Ethical Consumer (September 2019)

In September 2019, Ethical Consumer viewed a SEC form 13F for Citigroup Inc, for the period ending 31 October 2018. It provided a list of the company's investments. Companies in which Citigroup held shares included: Apple Inc, Boeing Co, Caterpillar Inc Del, Coca-Cola Company, ExxonMobil Corp, Fresh Del Monte, General Electric, Invesco, McDonalds Corp, Pfizer Inc, Philip Morris, Royal Dutch Shell, Unilever and Wal-Mart Stores Inc.

These companies had been criticised under the following Ethical Consumer categories:

Apple Inc: Arms & Military Supply, Workers' Rights, Political Activities, Anti-Social Finance

Boeing Co: Arms & Military Supply, Anti-Social Finance

Caterpillar Inc Del: Boycotts (called by BDS National Committee), Human Rights

Coca-Cola Company: Anti-Social Finance

Exxon Mobil Corp: Human Rights, Political Activities, Anti-Social Finance, Climate Change

Fresh Del Monte: Factory Farming, Animal Rights, Human Rights, Anti-Social Finance

General Electric: Arms & Military Supply, Animal Testing, Human Rights, Political Activities, Anti-Social Finance, Controversial Technology (nuclear power, genetic engineering, nanotechnology)

Invesco: Human Rights, Workers' Rights, Political Activities, Anti-Social Finance

McDonalds Corp: Factory Farming, Irresponsible Marketing, Animal Rights, Human Rights, Political Activities, Workers' Rights, Anti-Social Finance, Pollution & Toxics, Habitats & Resources

Pfizer: Pollution & Toxics, Animal Testing, Factory Farming, Animal Rights, Human Rights, Political Activities, Anti-Social Finance

Philip Morris: Anti-Social Finance

Royal Dutch Shell: Climate Change, Pollution & Toxics, Habitats & Resources, Animal Testing, Political Activities, Anti-Social Finance

Unilever: Anti-Social Finance, Animal Rights, Human Rights, Workers' Rights, Pollution & Toxics,

Palm Oil, Factory Farming, Controversial Technology (genetic engineering), Political Activities

Wal-Mart Stores Inc: Climate Change, Pollution & Toxics, Animal Rights, Human Rights, Workers' Rights, Irresponsible Marketing, Arms & Military Supply, Factory Farming, Animal Testing, Palm Oil, Political Activities, Anti-Social Finance

Citigroup therefore lost half marks in these categories for providing banking, investment or other financial services to these companies. (ref: 8)

Fossil Fuel Finance Report Card 2019 - Rainforest Action Network (September 2019)

JPMorgan Chase & Company was one of 33 major banks named in a report analysing patterns of private bank financing for coal, oil, and gas projects that were described as the most carbon-intensive, financially risky, and environmentally destructive sectors of the fossil fuel industry.

In their 'Banking on Climate Change: Fossil Fuel Finance Report Card 2019' dated March 2019, produced in collaboration with BankTrack, the Sierra Club, Oil Change International and Indigenous Environmental Network, Rainforest Action Network (RAN) evaluated 33 global commercial and investment banks on their financing for the fossil fuel industry. JPMorgan ranked as "the world's top funder of fossil fuels by a wide margin".

The original report 'Banking on Climate Change', dated 2017, found that funding from all 37 banks investigated for extreme fossil fuels dropped by 22 percent from the previous year. Extreme fossil fuels included some of the most carbon-intensive, detrimental to local communities, and environmentally damaging energy subsectors: Arctic, tar sands, and ultra-deep offshore oil; coal mining and coal-fired power; and North American Liquid Natural Gas (LNG) export terminals. The banks invested nearly US\$87 billion in 2016 to the extraction, processing, and burning of extreme fossil fuels at top companies - compared with \$111 billion in 2015.

Other key findings were less encouraging. Twelve of the banks increased their financing to the top extreme fossil fuel companies from 2015 to 2016, after the Paris Agreement was signed. The Chinese banks' alarmingly high funding for coal placed them top of the extreme fossil fuel league table. Meanwhile, bank policies and market forces in Europe and the United States significantly brought down the amount of money flowing from banks in these regions to the largest coal mining companies. European banks dominated in financing Arctic oil, US banks topped the list for ultra-deepwater oil, and Canadian banks were the biggest players in tar sands oil.

For each area examined – other than human rights – a grade was issued. These ranged from A (bank prohibited financing) to F (no policy), described in more detail below for the individual grades.

The total amount invested in each area over the last three years was recorded and a table produced.

JP Morgan Chase scored as follows:

Of the \$289.8 billion total invested in all forms of extreme fossil fuels between 2014 and 2016 by the 37 banks, JP Morgan Chase was reported to have invested \$20 billion. In 2016, the 37 invested \$86.5 billion, of which JP Morgan Chase was stated to be responsible for \$6.9 billion.

Extreme Oil D

"D" range grades (D+, D, and D-) were awarded to banks that publicly disclosed due diligence policies and processes covering financing for tar sands, ultra-deepwater, and/or Arctic oil projects or companies engaged in these types of oil production.

Investments were subdivided into the three categories above, as follows:

Extreme Oil – Tar Sands

Of the \$47.7 billion invested in Tar Sands between 2014 and 2016 by the 37 banks, JP Morgan Chase was reported to have invested \$3.1 billion - of which \$557 million was from 2016.

Extreme Oil - Drilling in Ultra-deep Waters

Of the \$48.6 billion invested in drilling in ultra-deep waters between 2014 and 2016 by the 37 banks, JP Morgan Chase was reported to have invested \$7.1 billion – \$2.6 billion in 2016.

Extreme Oil – Arctic Drilling

Of the \$9.1 billion invested in Arctic drilling between 2014 and 2016 by the 37 banks, JP Morgan Chase was reported to have invested \$582 million – \$69 million from 2016.

Coal Mining B-

“B” range grades (B+, B, and B-) were assigned to banks with policies to reduce or phase out financing for coal producers.

Of the \$57.9 billion invested between 2014 and 2016 by the 37 banks, JP Morgan Chase was reported to have invested \$403 million – \$30 million in 2016.

Coal Power C

“C” range grades (C+, C, and C-) indicated that banks had policies to restrict or prohibit financing for new coal power plants.

Of the \$74.7 billion invested between 2014 and 2016 by the 37 banks, JP Morgan Chase was reported to have invested \$4.8 billion - of which \$2.2 billion was from 2016.

LNG Export D-

“D” range grades (D+, D, and D-) were awarded to banks that publicly disclosed due diligence policies covering financing for LNG export projects or terminal operators.

Of the \$51.6 billion invested between 2014 and 2016 by the 37 banks, JP Morgan Chase was reported to have invested \$3.9 billion - \$1.4 billion in 2016. (ref:16)

Pollution & Toxics

(See also '**Shareholdings in criticised companies**' in **Climate Change** above.)

Providing banking services to companies criticised by Ethical Consumer (January 2019)

The company information website Hoovers.com provides data on a range of financial issues including the name of a company's banker or bankers.

It was found in January 2019 that HSBC was listed as banker to Tesco. Tesco received negative ratings under a range of Ethical Consumer categories including: Pollution and Toxics, Habitats and Resources, Human Rights, Controversial Technologies, Factory Farming, Animal Rights, Workers Rights, Irresponsible Marketing, Political Activities and Anti-Social Finance.

Therefore HSBC was marked down for providing services to companies criticised in these categories. (ref: 5)

Habitats & Resources

(See also '**Dodgy deals on Banktrack**' in **Climate Change** above.)

(See also '**Shareholdings in criticised companies**' in **Climate Change** above.)

(See also '**Providing banking services to companies criticised by Ethical Consumer**' in **Pollution & Toxics** above.)

Palm Oil

Criticised for financing deforestation for palm oil (January 2017)

In January 2019 Ethical Consumer viewed a report by Greenpeace entitled 'Dirty Bankers: how HSBC is financing forest destruction for palm oil' (published January 2017). The report stated that HSBC had "begun or maintained financial relationships (including providing or arranging loans) with companies and groups operating palm oil concessions in Indonesia associated with the most unsustainable aspects of palm oil development."

HSBC therefore lost half a mark under Palm Oil. (ref: 7)

Animals

Animal Testing

(See also '**Shareholdings in criticised companies**' in **Climate Change** above.)

(See also '**Providing banking services to companies criticised by Ethical Consumer**' in **Pollution & Toxics** above.)

Factory Farming

(See also '**Shareholdings in criticised companies**' in **Climate Change** above.)

(See also '**Providing banking services to companies criticised by Ethical Consumer**' in **Pollution & Toxics** above.)

(See also '**Investments in companies criticised by Ethical Consumer**' in **Climate Change** above.)

Animal Rights

(See also '**Shareholdings in criticised companies**' in **Climate Change** above.)

(See also '**Providing banking services to companies criticised by Ethical Consumer**' in **Pollution & Toxics** above.)

(See also '**Investments in companies criticised by Ethical Consumer**' in **Climate Change** above.)

People

Human Rights

Operations in oppressive regimes HSBC (September 2019)

In September 2019 Ethical Consumer viewed HSBC's list of subsidiaries and offices in its annual report 2018. This showed that the company had operations in the following countries, which were considered by Ethical Consumer to be governed by oppressive regimes: China, India, Russia, Vietnam, Philippines, Sri Lanka, Nigeria, Saudi Arabia.

HSBC therefore lost a whole mark under Human Rights. (ref:17)

Operations in oppressive regimes Citigroup (September 2019)

In September 2019 Ethical Consumer searched Citigroup's website for its global locations. According to these sources, Citigroup had operations in the following countries: Bangladesh, China, Colombia, Democratic Republic of Congo, Honduras, India, Iraq, Israel, Jordan, Kazakhstan, Nigeria, Pakistan, Philippines, Russia, Saudi Arabia, Sri Lanka, Thailand, Venezuela, Vietnam.

At the time of writing Ethical Consumer considered each country listed to be governed by an oppressive regime. The company therefore lost a whole mark in the Human Rights category. ref:18)

(See also '**Shareholdings in criticised companies**' in **Climate Change** above.)

(See also '**Dodgy deals on Banktrack**' in **Climate Change** above.)

(See also '**Providing banking services to companies criticised by Ethical Consumer**' in **Pollution & Toxics** above.)

Workers' Rights

(See also '**Shareholdings in criticised companies**' in **Climate Change** above.)

(See also '**Providing banking services to companies criticised by Ethical Consumer**' in **Pollution & Toxics** above.)

(See also '**Investments in companies criticised by Ethical Consumer**' in **Climate Change** above.)

Irresponsible Marketing

(See also '**Shareholdings in criticised companies**' in **Climate Change** above.)

(See also '**Providing banking services to companies criticised by Ethical Consumer**' in **Pollution & Toxics** above.)

Arms & Military Supply

Investments in cluster munitions (May 2017)

The report 'Worldwide Investments in Cluster Munitions: a shared responsibility', published in May 2017 by PAX, updated earlier versions published annually since 2009.

The report was a state-of-the-art report on financial institutions' investment in companies that developed or produced cluster munitions, on financial institutions disinvesting from producers of cluster munitions and on states banning investments in cluster munitions.

The Convention on Cluster Munitions (CCM) categorically bans the use, production, stockpiling and transfer of cluster munitions. 94 countries signed the convention at the Oslo Signing Conference held 3-4 December 2008. The convention entered into force on 1 August 2010.

The report revealed that many financial institutions were still financing cluster munitions producers, despite the international consensus being that such weapons were considered unacceptable, given that civilians make up 98% of all cluster munitions victims.

The report stated that JPMorgan Chase (United States) had the following relationships with cluster munitions producers:

- Between 01 November 2013 and 30 September 2016, JPMorgan Chase provided loans totalling approximately US\$877 million to Orbital ATK (US\$196m) and Textron (US\$682m).

- between 29 September 2015 to 16 May 2016, it had underwritten bond issuances for Orbital ATK to the amount of US\$162 million for acquisition, general corporate purposes and refinance.
- between 23 January 2014 and 04 March 2016, it had underwritten bond issuances for Textron to the amount of US\$242 million for general purposes and refinance.
- between 31 August 2016 and 31 December 2016, it owned or managed bonds of Orbital ATK to the amount of US\$21 million. (ref:19)

Investment in companies supplying Israeli military and government (December 2018)

HSBC was found by War on Want to be profiting from the sale of arms and equipment used in the oppression of Palestinians.

In its report, *Deadly Investments: UK Banks complicity in Israeli Crimes against the Palestinian People*, published in July 2017, War on Want investigated the relationship between UK banks and financial institutions and a sample of 19 companies profiting from Israeli militarism. The 19 companies had supplied the Israeli military and the Israeli Government with weapons and/or technology that had been used in the oppression of Palestinians. Companies that had sold 'civilian' equipment such as bulldozers which had been used to carry out demolitions of Palestinian houses in the West Bank, were also included in the report.

The report looked at two ways in which banks and financial institutions had supported these companies: by holding shares; and by providing loans to them.

It found that HSBC had provided 15 syndicated loans worth £19.3b in addition to shareholdings worth £831.5m to 15 companies that were profiting from Israeli's militarism.

Al Jazeera reported on 27 December 2018 that HSBC had pulled out its investments from one of these firms, Elbit Systems, following the campaign by War on Want and Palestine Solidarity Campaign.

The company lost a whole mark for secondary criticism under Arms and Military Supply. (ref: 9)

Mass investment in nuclear weapons companies (March 2018)

In March 2018 the International Campaign to Abolish Nuclear Weapons (ICAN) published the 6th "Don't Bank on the Bomb" report, a "A Global Report on the Financing of Nuclear Weapons Producers".

The report argued that "When financial institutions invest in companies associated with nuclear weapon production, they provide the financing to maintain, test, and modernise nuclear weapons... Financial institutions have a choice, either to contribute to the end of nuclear weapons, or to provide the financing that will allow nuclear weapons to end us."

The report listed 329 financial institutions that were involved in the financing of 20 selected nuclear weapon companies. HSBC was said to have invested \$3,302 million between January 2014 and October 2017. (ref: 10)

Investment in nuclear weapons firms (March 2018)

The International Campaign to Abolish Nuclear Weapons (ICAN) released a new report in March 2018 titled 'Don't Bank on the Bomb: A Global Report on the Financing of Nuclear Weapons Producers'. In March 2018 Ethical Consumer viewed the 2018 report by Don't Bank on the Bomb detailing which banks had invested in companies producing nuclear weapons. The report stated that since January 2014 until October 2017 Citigroup had invested a total of \$16,489 million in 14 companies producing nuclear weapons. These investments were in the form of loans, bond issues

and share issues. The five largest investments were:

1. Honeywell International - \$4,530M
2. Lockheed Martin - \$2,980M
3. Boeing - \$2,977M
4. Fluor - \$1,777M
5. Bechtel - \$1,020M

ICAN argued that "By divesting from nuclear weapon producers, we can make it harder for those that profit from weapons of mass destruction and encourage them to cut the production of nuclear weapons from their business strategies. Producing, possessing and modernising nuclear weapons is not something to be proud of and Don't Bank on the Bomb names those that are still okay with trying to make a profit from producing nuclear weapons, our job is to shame them."

ICAN went on to say that, "When financial institutions invest in companies associated with nuclear weapon production, they provide the financing to maintain, test, and modernise nuclear weapons. In short: no money means no production. The financial sector has a role to play in ending nuclear weapons, and this report is a way to monitor progress and inspire action."

ICAN was calling for a coordinated global campaign for nuclear weapons divestment.

The research identified a total of 329 financial institutions that were found to be significantly involved in financing the 20 selected nuclear weapons producing companies.

Citigroup lost a mark under Arms & Military supply. (ref: 10)

Politics

Controversial Technologies

(See also 'Investments in companies criticised by Ethical Consumer' in **Palm Oil** above.)

Boycott Call

(See also 'Shareholdings in criticised companies' in **Climate Change** above.)

(See also 'Investments in companies criticised by Ethical Consumer' in **Climate Change** above.)

Political Activities

Political donations and lobbying (September 2019)

In September 2019, Ethical Consumer viewed the entry for HSBC on the Opensecrets.org website, which was published in the USA by the Centre for Responsive Politics. This stated that in 2018 the company had spent \$1,590,000 on lobbying and made \$272,562 in political donations. Of this, \$137,192 was donated to Republican candidates and \$130,964 to Democrats. In 2018 23 out of 26 lobbyists were said to have previously held government jobs. The company lobbied on bills covering a range of issues, including taxes, trade, banking, finance, foreign relations and consumer product safety.

Ethical Consumer also checked the Electoral Commission website, which stated that HSBC gave £4,500.00 to The Rt Hon Sajid Javid MP (Conservative) on 15/01/2016.

HSBC therefore lost a whole mark under Political Activities. (ref: 12)

Political lobbying Citigroup (September 2019)

In September 2019, Ethical Consumer viewed the entry for Citigroup on the Opensecrets.org website, which was published in the USA by the Centre for Responsive Politics. This stated that in 2018 the company had spent \$5,040,000 on lobbying and made \$2,311,480 in political donations. Of this, \$1,032,768 was donated to Republican candidates and \$992,252 to Democrats.

In 2018 31 out of 34 lobbyists were said to have previously held government jobs. Citigroup lost a whole mark under Anti-Social Finance. (ref: 19)

(See also 'Shareholdings in criticised companies' in **Climate Change** above.)

(See also 'Providing banking services to companies criticised by Ethical Consumer' in **Pollution & Toxics** above.)

Anti-Social Finance

Worst Ethical Consumer rating for likely use of tax avoidance strategies (September 2019)

In September 2019 Ethical Consumer viewed HSBC's family tree on the D&B Hoovers corporate database. According to this list the company had multiple subsidiaries in jurisdictions considered by Ethical Consumer to be tax havens at the time of writing.

Holding companies and finance companies are high-risk company types for tax avoidance and HSBC had many of these, for example:

- 1 - HSBC Investment Holdings (Guernsey) Ltd. in Guernsey
- 2 - GenoPort (Holdings) Limited in Bermuda
- 3 - HSBC Fund Administration (Jersey) Ltd.

The company's 2018 annual report contained a chart outlining taxes paid by region (UK, Rest of Europe, Asia etc.) but without other information such as employee numbers, revenue and assets, these figures do not constitute country-by-country financial information.

HSBC therefore received Ethical Consumer's worst rating for likely use of tax avoidance strategies and lost a mark under Anti-Social Finance. (ref: 13)

Worst Ethical Consumer ranking for likely use of tax avoidance (September 2019)

In September 2019 Ethical Consumer viewed JPMorgan Chase & Company's family tree on the corporate information website D&B Hoovers. The company was found to have many high risk subsidiaries in jurisdictions considered to be tax havens by Ethical Consumer at the time of writing, including J.P. Morgan International Holdings Limited, based in the Cayman Islands with subsidiaries in Singapore and London, JPMorgan Mauritius Holdings Limited in Mauritius and JPMorgan Asset Management Holdings based in Luxembourg with a subsidiary in Switzerland.

Given that JPMorgan Chase & Company had more than two high risk subsidiaries in jurisdictions on Ethical Consumer's tax haven list and it published no country-by-country financial information, the company received Ethical Consumer's worst rating for likely use of tax avoidance strategies. (ref: 13)

Helped clients dodge millions in tax (February 2015)

In February 2015 it was reported by the BBC that HSBC helped wealthy clients across the world evade hundreds of millions of pounds worth of tax.

BBC's Panorama show had seen accounts from 106,000 clients in 203 countries, leaked by

whistleblower Herve Falciani in 2007. The documents included details of almost 7,000 clients based in the UK.

The French authorities had already concluded in 2013 that 99.8% of their citizens on the list were probably evading tax. The thousands of pages of data were obtained by the French newspaper Le Monde. In a joint investigation, the documents had been passed to the International Consortium of Investigative Journalists, the Guardian newspaper, Panorama and more than 50 media outlets around the world.

HM Revenue and Customs (HMRC) was given the leaked data in 2010 and identified 1,100 people from the list of 7,000 British clients who had not paid their taxes. But almost five years later, only one tax evader has been prosecuted. HMRC said £135m in tax, interest and penalties have now been paid by those who hid their assets in Switzerland.

The chairwoman of the Public Accounts Committee, Margaret Hodge MP, said: "I just don't think the tax authorities have been strong enough, assertive enough, brave enough, tough enough in securing for the British taxpayer the monies that are due."

HSBC did not just turn a blind eye to tax evaders - in some cases it broke the law by actively helping its clients. HSBC said it was "co-operating with relevant authorities".

The bank gave one wealthy family a foreign credit card so they could withdraw their undeclared cash at cashpoints overseas.

HSBC also helped its tax-dodging clients stay ahead of the law. When the European Savings Directive was introduced in 2005, the idea was that Swiss banks would take any tax owed from undeclared accounts and pass it to the taxman. It was a tax designed to catch tax evaders. But instead of simply collecting the money, HSBC wrote to customers and offered them ways to get round the new tax. HSBC denies that all these account holders were evading tax.

HSBC admitted that it was "accountable for past control failures." But it said it had now "fundamentally changed. We acknowledge that the compliance culture and standards of due diligence in HSBC's Swiss private bank, as well as the industry in general, were significantly lower than they are today," it added.

The bank is facing criminal investigations in the US, France, Belgium and Argentina, but not in the UK, where HSBC is based. (ref: 14)

References

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- 9 - War on Want communications and reports:Deadly Investments: UK bank complicity in Israel's crimes (July 2017)

Ethical Screening



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- 16 - Rainforest Action Network (RAN) Reports: Banking on Climate Change: Fossil Fuel Finance Report Card 2019 (20 March 2019)
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