



09 November 2018

General Manager – Policy Development
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Dear Sir/Madam

Discussion Paper
Improving the transparency, comparability and flexibility of the ADI capital framework

HSBC Bank Australia Limited and The Hongkong and Shanghai Banking Corporation Sydney Branch (collectively 'HSBC') welcomes the opportunity to provide comments on the Discussion Paper *Improving the transparency, comparability and flexibility of the ADI capital framework*.

In Australia, the HSBC Group offers an extensive range of financial services through a network of 37 branches. These services include retail and commercial banking, trade finance, treasury and financial markets, payments and cash management and securities custody. HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. The Group serves customers worldwide from around 3,800 offices in 66 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US\$2,522bn at 31 December 2017, HSBC is one of the world's largest banking and financial services organisations.

We have undertaken a review of the Discussion Paper and write to provide our feedback. Please note that we have not directly addressed each of the consultation questions under section 4, and have additionally provided feedback towards specific areas relevant to HSBC Australia.

HSBC advises that our preferred methodology to improve transparency and comparability is the proposed Approach 2 – *Capital ratio adjustments*. We believe that this approach has benefits that are wider-ranging to the industry and support the purpose of the paper – to improve comparability, transparency, promotes financial stability and ability to source wholesale funding in times of stress. Whilst we note this approach will present operational challenges we recognise the benefits are expected to outweigh additional effort and costs. To alleviate some of those challenges we recommend APRA considers suitable implementation timelines that factor transition to the revised capital framework particularly for ADIs that are subsidiaries of a foreign parent. HSBC recommends the base computation under the proposed approach 2 be strictly aligned with the BCBS minimum capital requirements and the overlay calculation kept simple and mechanical. This will avoid additional re-computation and rebuild of Basel compliant system requirements.

We recommend that APRA supplement this Discussion Paper with further details on the proposed overlay adjustments to enable organisations to perform a more comprehensive assessment on Approach 2. Further consultation would be expected to assess the details of the APRA overlay adjustment (AOA) calibration and application after considering the initial industry feedback. Additionally, we suggest that APRA review the implementation timelines and consider flexibility or relief for large global organisations with complex internal structures to allow a smooth transition to the chosen method.


Consultation questions

Question	Comment/Feedback
<p>Q1 -What are the advantages and disadvantages of each approach:</p> <ul style="list-style-type: none"> • Approach 1 (consistent disclosures); • Approach 2 (capital ratio adjustments); • A combination of Approach 1 and Approach 2, applying to different aspects of material relative conservatism; or • Status quo – retain the existing approach? 	<p>HSBC agree that maintaining the current approach will not serve the ultimate purpose, which is to better inform stakeholders, improve comparability and enhance transparency.</p> <p>We note that the assessment on which approach is best will largely depend on the details of the proposed overlay adjustment, particularly if it is achieving the right balance between simplicity, completeness and timeliness.</p> <p>We believe that Approach 2 has the advantage of providing a comprehensive overview and is better aligned with the Basel standards without compromising current requirements for higher capital minimum. Such disclosures may assist in improving investor comprehension and aid organisations in demonstrating Basel comparability. In addition, banks should experience improved capacity to source funding in times of stress with risk averse investors being better informed on relative capital strength of local banks compared to international peers.</p> <p>To minimise operational requirements and achieve a uniform outcome across all ADIs we would support a simple and mechanical computation of the proposed buffer under approach 2. Our expectation is for the proposed AOA to be calibrated to individual ADIs and defined within the ICAAP or Pillar 2 assessment on an annual basis to coincide with internal capital planning.</p> <p>We suggest that APRA consider providing flexibility on the implementation timelines for larger and complex organisations with sufficient lead time post implementation of the revised capital framework.</p>

<p>Q2 - If APRA were to apply a combination of Approach 1 and Approach 2, which aspects of relative conservatism are best suited to be treated under Approach 2?</p>	<p>A blend of proposed approach 1 and 2 may not achieve the improved level of comparability under approach 2 and may confuse investors due to potential misalignment with the Basel framework.</p>
<p>Q4 - What are the material considerations in regards to the disclosure of adjustments to capital ratio requirements under Approach 2? Should the level of disclosure of the adjustments be in aggregate only or also attributed to aspects of relative conservatism?</p>	<p>To achieve higher level of transparency, HSBC suggests that adjustment disclosures should be comprehensive to cover the material aspects of relative conservatism. We believe this will give valuable insight to interested stakeholders regarding the ADI's risk profile and how it compares with other ADIs.</p> <p>HSBC suggest that material considerations on disclosure of capital ratio adjustments under Approach 2 should include purpose and explanation of methodology, and its limitations.</p>
<p>Q5 - Are there other implementation considerations that may arise with the approaches outlined in Chapter 2, such as costs in modifying systems and processes for capital calculations or integration into ADIs' strategic and capital planning cycles?</p>	<p>We advise that some standardised banks may not achieve sufficient benefits to justify investment in system enhancements to implement additional disclosures. The option to opt out should be considered if comparability or transparency gains are limited.</p>
<p>Q7 - Would increasing the size of capital buffers (either by increasing the CCB or by setting a non-zero baseline CCyB) relative to PCR appropriately balance capital strength with financial stability through the cycle?</p>	<p>HSBC suggests increasing the size of the current CCyB and CCB buffers would not be appropriate and may cause unintended consequences, such as re-pricing, reduced lending appetite and potential tightening of credit. A separate and distinct buffer should be considered with the aim of maintaining neutrality in capital quantum. HSBC preference is for the application of pillar 2 framework to determine the size and extent of the proposed AOA.</p>
<p>Q8 - What may be some of the potential impacts if APRA increases the prescribed loss absorption trigger point above 5.125 per cent of RWA?</p>	<p>Higher prescribed loss absorption trigger in excess of internationally accepted benchmark would present a significant disadvantage for Australian Banks to source AT1 funding relative to international peers.</p> <p>In view of the ongoing consultation on the revised capital framework it would be sensible to defer the recalibration of the loss absorption trigger point until such time the impact of those reforms are clearer to make an informed assessment that considers implications for both IRB and standardised banks and avoids disparity between IRB and Standardised banks.</p>

We thank APRA for considering our comments and should you have any questions, please do

Yours faithfully,



Chief Financial Officer
HSBC Bank Australia Limited