



18 September 2019

General Manager Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority
Level 12, 1 Martin Place
Sydney NSW 2000

By email: ADIpolicy@apra.gov.au

Dear Sir/Madam,

**Response to submission
Revisions to the Capital Framework for Authorised Deposit-Taking Institutions**

HSBC Bank Australia Limited and The Hongkong and Shanghai Banking Corporation Sydney Branch (collectively 'HSBC') welcomes the opportunity to make a submission on APRA's 12 June 2019 *Response to submission - revisions to the capital framework for ADIS's (Response to submissions – June 2019)* and the accompanying draft prudential standards (APS112 Capital Adequacy: Standardised Approach to Credit Risk, APS 115 Capital Adequacy: Standardised Measurement Approach to Operational Risk).

In Australia, the HSBC Group offers an extensive range of financial services through a network of 44 branches and offices. 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 4,000 offices in 70 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa. With assets of US\$2,751bn at 30 June 2019, HSBC is one of the world's largest banking and financial services organisations.

HSBC has participated in the industry discussions led by the Australian Banking Association (ABA) in relation to the proposed capital reforms and largely support the industry submissions. Our comments below are limited towards areas of more importance to HSBC Australia:

- The desire for global consistency;
- Commitments definition and use of national discretion; and
- Support for proposed implementation timeline.

Global Consistency

Consistent with the HSBC responses to the previous consultations, "Revisions to the capital Framework for ADIs" and "Improving the transparency, comparability and flexibility of the ADI capital framework", HSBC firmly supports a globally consistent implementation of the Basel III standards because this:

- facilitates international comparability and avoids the potential for distortion on other internationally comparable measures such as the leverage ratio.;

- ensures a level playing field for non-retail sectors, where there is competition from global peer banks who are not bound by similar local rules; and
- is a less complex and more cost effective implementation for an international bank. This allows us to leverage global system development without significant local customisation, which is not only more cost effective but presents less risk to delivery given the challenges in obtaining globally scarce IT resources.

Noting that the risk weights (RW%) and credit conversion factors (CCF) are indicative only and subject to further consultation, we welcome the revisions that align to Basel III standards. However, there are still areas where there are significant variations to international standards including:

- CCFs (most notably mortgage, personal credit, other corporates)
- Personal credit/revolving RW%;

The proposed CCF increases beyond Basel III standards will have significant implications on the wider economy to the detriment of the consumer. For example, we do believe that the proposed CCF of 100% for mortgages does not reflect the actual usage of these lines (in our experience few customers ever redraw 100% of their overpayments) and could act as a disincentive for banks to accept prepayments and/or pass on the risk reduction benefit to customers.

Commitments and applying national discretion

We welcome the proposal to exercise national discretion to exempt certain arrangements from the definition of 'commitment' provided that certain conditions being met. Whilst this will result in a number of arrangements that would otherwise have been classified as 'unconditionally cancellable' being exempted from the definition of commitment, without changes to operational processes many facilities will not benefit from the exemption.

With the proposal to remove the Basel III "unconditionally cancellable" category (with CCF of 10%), the industry will seek to review these types of facilities and there will be potential customer detriment including availability, cost and speed to access such facilities.

Implementation Timeline

We welcome APRA's proposal to align the implementation of the revised capital standards in Australia with the Basel Committee's internationally agreed timeline as provided in the Basel III reform package, 1 January 2022.

We also encourage timely publication of the final capital standards without undue delay. Sufficient lead time is required to perform necessary system development and testing, as well as business strategic reviews to implement cost allocation, product pricing and required customer system enhancements.

Conclusion

It is important to achieve a balanced outcome to the capital framework, without seeking overly conservative standards, which would promote financial stability, local and global competition, and prudent lending policies and practices. There are a number of areas in which APRA is

proposing standardised risk-weights and credit conversion factors which are higher than those proposed by the Basel Committee. We appreciate that APRA may have concerns about the relative risks of certain sectors in the Australian financial system but we have two observations about the potential consequences which arise from setting higher risk-weights in the regulatory framework:

(a) This may mean that the comparative strength of Australian banks in terms of like-for-like capital ratios is less obvious to equity and debt investors, particularly those which operate in international capital markets.

(b) Establishing structurally super-equivalent risk weights reduces the ability for APRA to vary risk-weights on a macro-prudential basis if it becomes apparent that the circumstances giving rise to these risks were cyclical, rather than structural.

Adopting Basel risk-weights, with a macro-prudential buffer which may be varied through time, could be another way of approaching these sectors.

We thank APRA for considering our comments and should you have any questions, please do not hesitate to contact our Regulatory Affairs team via email

[Redacted]

Yours sincerely

[Redacted Signature]

Chief Financial Officer
HSBC Bank Australia Limited