



27 April 2018

General Manager, Policy Development
Policy and Advice Division
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2000

By email: ADIpolicy@apra.gov.au

Dear Sir/Madam,

DISCUSSION PAPER: LEVERAGE RATIO REQUIREMENT FOR AUTHORISED DEPOSIT-TAKING INSTITUTIONS (ADIs)

HSBC Bank Australia Limited (HBAU) and The Hongkong and Shanghai Banking Corporation Sydney Branch (HBAP) (collectively 'HSBC') welcomes the opportunity to provide comments on the Discussion Paper Leverage Ratio Requirements for ADIs.

In Australia, the HSBC Group offers an extensive range of financial services through a network of 36 branches and offices. These services include retail and commercial banking, financial planning, 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\$2,522bn at 31 December 2017, 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) and we are supportive of their submission.

HSBC's view is that APRA's proposed leverage ratio at a minimum of 3% for standardised ADI's is a sensible proposal and provide the following general feedback on the paper:

- The APRA proposal is consistent with the Basel leverage ratio of 3.0% for non-globally systemic banks
- Reliance on Tier 1 capital to derive the leverage ratio is in line with Basel approach.
- The APRA proposed simplified approach of leveraging readily available accounting and regulatory measures may limit the scope for valid exclusions.
- The proposed implementation in July 2019 is achievable, noting Basel has required public disclosure of the leverage ratio since 2015 and the Basel amended approach is effective from January 2022.
- We advise that the proposed capital reforms (scheduled to come into effect from Jan 2021) will potentially add \$3.6b in off balance sheet exposure to HBAU, which will materially weaken our leverage ratio by up to 0.50%. We view the APRA proposed capital reforms as more stringent than the Basel requirements, particularly in the measurement of credit equivalent on undrawn positions. We believe if these proposals are implemented unchanged in January 2021, there will be an unfavourable impact on the leverage ratio for Australian ADIs, risking an uneven playing field and loss in global harmonisation.

- HSBC's preference is for some exceptions to be allowed to those who do not contribute to leverage, specifically assets subject to bilateral netting and pooling arrangements, regulatory shortfall on General Reserves for Credit Losses deducted from retained earnings, and IFRS 9 provisions on contingent exposures recorded on the liabilities. We would also support the exclusion of cash balances held with the Reserve Bank of Australia (RBA) on the basis such balances contributing to leverage could be counterintuitive in a volatile or stressed environment and may potentially cause unwanted dysfunction in the payment system.

With regard to specific feedback on each Chapter of the proposal we note the following:

Chapter 1

HSBC's view is that the proposed leverage ratios are not expected to unduly impede economic growth given sufficient headroom is available based on the current leverage ratio levels while promoting financial stability, provided no additional regulatory buffers are mandated and the intended purpose of the leverage metric remains as a genuine backstop measure.

As noted above, we are concerned that the APRA proposed capital framework revisions (particularly the CCFs on undrawn exposures) will have a material impact on the local leverage ratio and result in an uneven playing field and loss in rules harmonisation.

HSBC supports an exemption on the inclusion of cash with the RBA. Sizeable balances of funds held with the RBA are a core aspect of financial stability and we believe it would be counter intuitive for such balances to count towards the leverage ratio particularly in the context of market instability or stress. Large deposit inflows in times of stress will add to leverage and may force the bank to decline new deposits potentially causing dysfunction in the payment system.

Chapter 2

We anticipate the impact to be minimal and secondary to regulatory capital ratios. HSBC's view is that there is sufficient headroom in the proposed leverage ratio to allow a moderate growth in risk free and low risk assets without materially impacting overall capital levels and business strategy. However this is subject to outcomes on proposed capital reforms particularly those related to CCFs on undrawn exposures.

Chapter 3

HSBC's view is that the proposed simplified exposure measure is practical and a materially accurate measure. We note that adding further complexities to the exposure measure may improve the accuracy, however we also acknowledge the benefit of requested exceptions may not outweigh the burden of additional operational requirements.

Thank you for the opportunity to provide feedback on this paper. Should you have any questions please feel free to contact me on [REDACTED]

Yours sincerely,



Emma Hider
Chief Financial Officer
HSBC Bank Australia Limited