HSBC

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Dear Sirs

Consultation Paper on Draft Implementing Technical Standards on supervisory reporting requirements for institutions (CP50)

HSBC welcomes the opportunity to respond to the EBA's consultation Guidelines on a Common Regulatory Reporting framework ('COREP') and Financial Reporting framework ('FINREP'). We support the EBA's objective to improve regulatory harmonisation in Europe and the goal of achieving more effective risk identification through greater accord in prudential reporting. This message echoes the comments our Chairman made in his letter to Mr Andrea Enria on 10 February 2012.

Against the backdrop of increased regulatory reporting demands, we are keen to contribute to the debate about the appropriate balance between the provision of information that is useful to our regulators and the reporting burden imposed by the requirements as they currently stand.

HSBC is one of the world's largest banking and financial services organisations, with assets of US$2,556 billion at 31 December 2011. Headquartered in London, HSBC serves customers worldwide from around 7,200 offices in 85 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America.

Significant systems and reporting resource will need to be mobilised in all of our jurisdictions in order to implement these additional European reporting requirements, whilst continuing to meet local reporting frameworks. This represents a very considerable incremental reporting burden for our banking operations outside Europe.

Against this background, our key concerns with the proposals set out in CP50 are as follows:

- the compressed implementation period to achieve full compliance with the reporting requirements;
- we see no clear rationale supporting the need for the vastly increased volumes of granular data proposed, nor an explanation of how this information will assist supervisors in performing their supervisory functions; and
- that data requirements are not finalised. There is a need for clear and unambiguous instructions and guidelines from the outset when banks are making their systems

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changes to deliver the new reporting, to enable effective harmonised reporting across all jurisdictions.

Implementation timeline

COREP and FINREP are proposed to be implemented from 1 January 2013 for first reporting at 31 March 2013. CRD IV is not expected to be finalised before June 2012.

It is unrealistic to expect banks throughout Europe to implement harmonised reporting requirements across their global reporting networks within a maximum period of nine months, given the substantial changes that will be required to our banks' reporting systems to source and report this data. We believe that an implementation period of 18 to 24 months is required. We also perceive a real risk of delay in the finalisation of CRD IV, this will impact both the publication of the final Implementing Technical Standards ('ITS') and the lead time required for system development. If CRD IV is delayed, we would require a corresponding extension to the implementation timelines, particularly as the latest amendments to this legislation contain in excess of 2,000 changes.

Typically, a complex project in our experience requires 18 to 24 months to implement. As the requirements for FINREP were only confirmed in December 2011, banks have had insufficient time to plan and mobilise appropriate resource. Historically, national regulators have acknowledged the practical constraints on banks' ability to meet new reporting requirements by allowing a minimum 12 month period in which to implement regulatory changes. This is in stark contrast to the 9 month period that is proposed in CP50.

The COREP/FINREP implementation timeline proposes a step change in the granularity of reporting required, which is not clearly proportionate to the development of the information needs of the audience receiving it. Reporting frameworks generally evolve in response to new information needs emerging over time. This evolution ensures that the reader has time to digest the new information and that further developments build on this, reflecting an appropriate prioritisation and refinement of the framework. For example, the information in our Annual Report and Accounts has developed over many years, as has our management information framework. By contrast, the 'big bang' approach proposed for COREP and FINREP would seem at odds with this and we see no clear rationale that explains the information needs of the supervisors, justifying the nature and level of detail demanded.

Furthermore, we note that the EBA's 2012 work programme lists a large number of technical standards that are to be provided to the EU Commission by 1 January 2013. Many of these technical standards could affect the completion of the reports, thereby diminishing our time available to implement any required changes.

Recommendations

FINREP

- Given the time required to implement this project, we request the EBA to defer the implementation of FINREP for at least 18 to 24 months from the date of publication of the final ITS before reporting is required; and/or

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- phase in the FINREP templates, commencing with the primary income statement and balance sheet data during the first quarter of live reporting, followed by some of the remaining templates over each of the subsequent quarters in that year until the full suite of FINREP templates is in place.

COREP

- Delay COREP implementation by at least 6 months; and/or

- phase in the COREP templates, commencing implementation with the Capital Adequacy templates only for the first reporting period at 31 March 2013, followed by some of the remaining templates over each of the subsequent quarters.

We would be pleased to work with the EBA to resolve any challenges that may arise as a result of these proposals, such as validation issues arising from a phased implementation of the reporting. We suggest a further consultation to establish the phasing requirements for COREP and FINREP.

Volume and granularity of data

We acknowledge it is important for supervisors to be provided with appropriate data to gain insight into the risks within institutions. However, in our experience it is not the volume of data collected that determines how useful it is, but its informational content and the purpose for which it is to be used.

Under COREP and FINREP, the breadth and granularity of requested data expands far beyond what is currently produced, compounding the compressed implementation timeline explained above. Given the sizeable increase in data requirements, it is important that banks have clarity in respect of the information that they are expected to supply.

While we agree that it is important for supervisors to receive harmonised data, we ask the EBA to provide banks with the underlying principles supporting the extent and depth of the proposals, to enable us to understand the context in which the data will be used. This will help to clarify our understanding of the data requested and therefore to assist us in identifying and reporting it in line with supervisors' expectations.

Recommendations

- To allow sufficient time to calibrate our reporting processes to the required 30 business day remittance period, we recommend an initial period of 45 business days is adopted for the first quarter of live reporting and subsequently reduced each year until the 30 business day remittance period is achieved.

- Furthermore, we believe that the well established concept of materiality that is applied in financial statements should be followed in COREP and FINREP. This materiality concept relies on a clear understanding of how the information reported is to be used in order to set the materiality threshold in the context of the size of the reporting bank's operations.

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Interpretation of templates

A significant number of areas have been identified that require clarification. Without the resolution of key points of understanding, we cannot progress the development of our IT and reporting systems. The effectiveness of the harmonised reporting framework depends upon the ability of banks to report meaningful and accurate data, which is underpinned by the certainty of clear and practicable workable data definitions, as seemingly minor definitional differences will lead to disproportionate time and expense to resolve.

Recommendation

- We strongly recommend that an effective mechanism be rapidly established to quickly resolve industry queries regarding the reporting templates. We would be happy to support industry dialogue with the EBA to reach a mutual understanding of the practical nature of the data requested by addressing specific definitional issues.

Given the challenges outlined herein, we urge the EBA to reconsider the proposed implementation of full-scope COREP and FINREP requirements. This would allow sufficient time to clarify areas of outstanding uncertainty, to implement sound IT systems and to allow for a thorough and robust implementation of the new reporting framework to the benefit of all concerned.

I would be pleased to discuss our comments further if this would be helpful to you and your colleagues.

Our detailed observations are set out in the appendices to this letter.

Yours sincerely,