

## Appendix I - responses to questions 1 – 29 and 31 - 45

**1. How would you assess the cost impact of using only CRR scope of consolidation for supervisory reporting of financial information?**

There will be an incremental cost in applying a different consolidation basis from that used for financial reporting in relation to the data review that is required. A key challenge in following the CRR scope of consolidation will be the need to proportionally consolidate the assets and liabilities of associates, as granular data will not be available to the consolidating firm. Certain jurisdictions prevent us from obtaining this data as we do not have legal rights to access the information. In other jurisdictions, we may have the legal right but data cannot be provided due to market sensitivities.

Technical guidance relating to the application of the CRR consolidation rules is required. The IFRS accounting framework contains specific rules for consolidation which are different from those in the CRR. For example:

- the CRR scope of consolidation requires that insurance companies are excluded from the regulatory consolidation, whereas these entities would be included within that for IFRS; and
- the assets and liabilities of associates will be proportionally consolidated for regulatory purposes, but they are treated under the equity accounting method for IFRS reporting.

Existing financial reporting systems do not follow a CRR scope of consolidation. The reporting required under FINREP will differ from the results that institutions publish to shareholders and that which is the focus of management.

On this basis, we are concerned that FINREP will become a secondary data set with uncertain status as to its significance and we therefore recommend that the EBA consider applying only the accounting basis for consolidation.

**2. Please specify cost implications if parts 1 and 2 of Annex III and of Annex IV of this regulation would be required, in addition to the CRR scope of consolidation, with the accounting scope of consolidation?**

There will be further incremental costs should the data be required on both an accounting and regulatory consolidation basis and this would be disproportionate to the benefit that supervisors will gain from receiving both sets of information.

As detailed in our response to question 1, we suggest that parts 1 and 2 of Annex III and Annex IV are provided on an accounting consolidation basis only. It is unclear why both consolidation bases would be required. We further recommend that parts 3 to 5 of Annex III and Annex IV be subject to national discretion.

**3. Financial information will also be used on a cross-border and on European level, requiring adjustments to enable comparability. How would you assess the impact if the last sentence of point 2 of Article 3 referred to the calendar year instead of the accounting year?**

This question is not applicable to HSBC.

**4. Does having the same remittance period for reporting on an individual and a consolidated level allow for a more streamlined reporting process?**

Consistent remittance periods for individual and consolidated reporting will not enhance our reporting process. The key factor when considering remittance dates, regardless of whether they are for individual or consolidated reporting, is the amount of time available to prepare the returns. Based on this understanding, should the remittance period for individual and consolidated reporting be the same, we believe this will not be an issue.

UK consolidated groups currently have 45 business days in which to report their group consolidated returns. Therefore, the proposed consolidated remittance period of 30 business days is a considerable reduction in the amount of time available to report. Due to the increase in granularity required, we recommend commencing with a remittance period of 45 business days in the first quarter of live reporting and gradually reducing the remittance period each subsequent year until the 30 business day remittance period is achieved. However, we are concerned that the remittance period of 30 business days will also be a problem for year end reporting periods, since data will need to be reported to national regulators ahead of our results being announced to the market. We therefore recommend the remittance period be extended during this period to allow firms to complete their Annual Report and Accounts ahead of formal reporting to the regulator.

**5. How would you assess the impact if remittance dates were different on an individual level from those on a consolidated level?**

We do not support the application of different remittance dates for individual and consolidated reporting. However, as expressed in question 4, it will not be feasible to submit data initially within the 30 business day remittance period.

**6. When would be the earliest point in time to submit audited figures?**

It was evident from the EBA's public hearing that annual COREP and FINREP returns will be compiled using audited financial information, but we understand the returns themselves will not be required to be audited.

To confirm that FINREP submissions agree to the audited accounts, we would suggest that the responsibility should lie with the institution to ensure that the data reported is materially consistent. The earliest HSBC would be able to submit returns based on audited figures would be approximately 40 to 45 business days after our financial year end.

**7. Do you see any conflicts regarding remittance deadlines between prudential and other reporting (e.g. reporting for statistical or other purposes)?**

In addition to our concerns outlined in question 4 in respect of year end reporting, we are not aware of any remittance date conflicts at this stage. However, conflicts may occur if the Financial Services Authority or Bank of England reporting deadlines diverge from current reporting submission dates, such that they coincide or conflict with COREP and FINREP remittance dates. This may be further compounded by any additional ad-hoc reporting exercises and data collection required by the Financial Stability Board for institutions classified as Global Systemically Important Banks.



**8. Do the proposed criteria lead to a reduced reporting burden?**

The burden would increase, as we would need to monitor the geographical distributions of each country to determine if the second threshold of 0.5% is triggered. However, as is noted in our response to question 10, we propose a more meaningful second threshold of 5%.

**9. What proportion of your total foreign exposures would be covered when applying the proposed thresholds? Please also specify the number of countries that would be covered with the proposed threshold as well as the total number of countries per exposure class.**

More than 75% of our total foreign exposures would be covered when applying the proposed thresholds.

Currently our systems do not generally hold data based on the location of the counterparty. Based on our best estimate using location of the lending entity, we estimate that 19 countries would meet the proposed threshold. The details of the number of countries per exposure class are as follows:

Central governments and central banks – 19  
Institutions – 18  
Corporate – 14  
Retail – 10

**10. What would be the cost implications if the second threshold of Article 5 (1) (c) (ii) were deleted?**

There would be no fundamental decrease in costs if the second threshold was deleted.

The second threshold of 0.5% of total IRB exposures is of little benefit to HSBC as it is too low. The size of our organisation means that most of our entities using the IRB approach would surpass the threshold. We therefore recommend a higher threshold of 5%.

**11. Is the calculation of the threshold sufficiently clear?**

The threshold calculation is not clear. We have identified various ambiguities which require clarification. These are set out below.

**10% threshold**

- Chapter 3 Article 5(c) requires ‘original exposure’ to be used in the threshold calculation, whilst Annex II refers to ‘exposure’ only. Please confirm the value to be used in the calculation, including a clear and concise definition.
- Chapter 3 Article 5(c) refers to ‘total exposure’; Annex II refers to ‘IRB exposure’. Please confirm the value to be used in the calculation, including a clear and concise definition.
- The definition of ‘domestic’ in Chapter 1 Article 2 (3)(a) is ambiguous. Please confirm the meaning of the term ‘located’, within the definition of ‘domestic exposures’.
- What does total IRB ‘all exposures classes’ encompass? Does it only include counterparty credit risk and non counterparty credit risk, or does it extend to include securitisation and non credit risk obligation asset exposures?

- Please define the term ‘non-domestic country’ as referred to in Chapter 3 Article 5(c).

#### **0.5% threshold**

- Please confirm that, where the 0.5% threshold is exceeded, then only a maximum of 9 foreign countries will be reported. For example, a bank has 100 foreign exposures but only 7 of those exceed the 0.5% threshold. Would we report the 7 exposures or the top ten foreign exposures (which would be a combination of 7 exposures above and 3 exposures below the 0.5% threshold)?
- CR-IRB row 080 (‘of which: exposures originated in the domestic country’) – please confirm that domestic country exposures are only reported if the 0.5% threshold is exceeded by 1 foreign country or more.
- Please confirm that the ‘domestic country’ exposures are reported in R080 regardless of whether it is an institution’s largest. For example, if an institution’s ‘domestic country’ exposure is its fifth most exposure, would this exposure be reported in R080 or R120?
- The threshold instructions refer to ‘Total IRB exposures’ and indicate that where the thresholds are exceeded, the ‘top 10 countries’ are reported.

Please confirm whether:

- the top 10 countries by approach should be reported, i.e. top 10 IRB-A and top 10 IRB-F; or
- the top 10 countries irrespective of the approach should be reported, i.e. a combination of IRB-A and IRB-F.
- The guidance on the 10% and 0.5% thresholds in Article 5 (1) lit (c) of the ITS and the flow chart in section 3.3.4 (85) of CR IRB instructions are inconsistent. Article 5(1) lit (c) states ‘...equal or higher than...’ whereas the flow chart 3.3.4(85) states ‘...greater than...’

Please confirm whether the threshold should be ‘...*equal to or greater than* 10% / 0.5%...’ or ‘...*greater than* 10% / 0.5%...’.

In addition, we question whether the concept of ‘domestic’ would be relevant to a global bank such as HSBC, considering we cover six geographical regions and it is likely that our domestic exposures will not be the highest.

#### **12. Do the provisions of Article 5 (2) lead to a reduced reporting burden for small domestic institutions?**

As currently drafted, where a group contains institutions located in more than one jurisdiction, none of the entities within that group will satisfy the criteria for reduced reporting. Also, should an institution contain a branch located in another jurisdiction, that institution will not satisfy the criteria but other institutions within the same group may. This seems to create a disproportionate reporting burden on institutions within cross-border groups.

Where a national supervisor has not waived the application of prudential requirements in accordance with Article 6 of the CRR, the national supervisor should be able to reduce the frequency of reporting for those institutions.

#### **13. Is the calculation of the threshold sufficiently clear?**

The calculation criteria references the standardised approach, it would appear therefore, that the reduced reporting frequency only applies to institutions following the standardised approach. This needs to be



clarified. In addition, the calculation refers to the 'balance sheet total' but it is not clear what this means, e.g. is it the original exposure value pre-conversion factors as per CR SA column 010?

**14. Competent Authorities are obliged to disclose data on the national banking sector's total assets as part of the supervisory disclosure. Do you find these publications sufficient to calculate the proposed threshold?**

The ITS states that the balance sheet total should be based on year-end figures, however, it does not clarify the consolidation basis or accounting framework to be followed when calculating the value. We request that the EBA clarify the calculation basis.

**15. What would be the cost implications if information on own funds as put forward in Part 1 of Annex I (CA 1 to CA 5) were required with a monthly frequency for all institutions?**

There is approximately a threefold increase in data requirements in the CA templates compared with the current monthly capital adequacy return (FSA003+). Taking this into account, we would incur significant costs to enable us to report the CA1 to CA5 on a monthly basis.

We believe that collecting data for all five templates on a monthly basis would result in a disproportionate cost versus the supervisory benefit to be gained.

**16. Are there specific situations where this approach (differentiating between institutions using IFRS and national accounting frameworks for supervisory reporting purposes) would not be applicable?**

The question identifies one of the fundamental challenges to the objective of harmonised reporting, in that there are currently several GAAPs (Generally Accepted Accounting Practices) applied across the EU. However, if FINREP is to be prepared on each institution's accounting basis, it is difficult to see any simple solution to this.

**17. What is your assessment of impact, costs and benefits related to the extent of financial information as covered by Articles 8 and 9?**

Assuming a workable implementation timetable (or an appropriately phased implementation) is adopted, our initial estimate of the cost to comply with the requirements of Article 8 and 9 is in the region of USD50m. We have not identified any significant benefits to HSBC.

Most of the cost arises from the need for additional granularity which entities do not gather already via their current financial reporting process.

**18. In Articles 8(2) and 9(2) the proposed frequency is semi-annually. Does this reduce reporting burden? Please quantify the estimated cost impact of reporting with semi-annual frequency compared to quarterly.**

We do not currently report this data; therefore there is no reduction in burden. However, Part 3 tables 10.2 to 10.3 of Annex III are particularly onerous, and a reporting frequency of semi-annual is preferable to quarterly.

We believe more consideration should be given to further reducing reporting frequencies, including the collection of certain data on an annual basis.

**19. What is your general assessment of applying reporting standards regarding financial information on an individual level?**

We see little advantage in applying the requirements at an individual level, as this will extend the requirements to all institutions, including institutions that may have been considered immaterial to a large European group.

The requirement to comply with the rules at a consolidated level is a disincentive to be headquartered in the EU, however this is currently partially offset by the fact that each local entity in Europe is then not required to report separately.

We also note the requirements, as drafted within Annex III of the ITS, do not capture groups headed by a non-bank financial holding company as these are not credit or investment institutions as defined in article 4 of the CRR, and we therefore welcome clarification on this point.

**20. How would you assess costs and benefits of applying the ITS requirements regarding financial information on an individual level? (Please assess the impact for the two scenarios (i) application of parts 1 and 2 of Annex III and Annex IV on an individual level (ii) application of parts 1 to 4 of Annex III and Annex IV on an individual level (ii)) Would there be obstacles for applying reporting on an individual level?**

As stated in question 19, we see little advantage in applying the requirements at an individual level, as the results of an individual entity will not be the same as its contribution to the group (for example, intercompany transactions are eliminated). There would be a significant extra burden on each subsidiary / branch, which in turn increases the cost of undertaking business in each country and erodes capital.

**21. If the proposal was to be extended, what implementation time would be needed?**

Based on complex projects of a similar magnitude, such as Basel II and IFRS implementation, an 18-24 month implementation timescale is challenging but manageable. However, it is important to note that this is from the point at which the rules are finalised.

Our view of the timeline is not driven by a desire to manage costs; there is a lifecycle to such projects, which includes scoping, gap analysis, system specification, system build/implementation, testing, and parallel run. If a tighter timeline is enforced then it is inevitable that the proper control processes (e.g. parallel running) will suffer. This in turn poses a risk to the regulatory objectives, as the data gathered will be of poor quality.

We are sympathetic to the EBA's desire to enable implementation in line with the expectations set by the Commission, but have the following recommendations:

- We believe that COREP and FINREP are significantly different in terms of objectives, the maturity of the draft regulations, and industry readiness. We believe the two requirements should be dealt with separately, as it is unrealistic to implement FINREP to COREP timelines. We suggest further consultation on the FINREP requirements.
- If reporting is required by Q1 2013, we suggest commencing with the primary income statement and balance sheet. Over time, additional requirements could be phased in as the regulators' processes are geared to use the data, and industry's state of readiness has increased.
- To accommodate countries already subject to FINREP, national discretion should be allowed for existing reporters, whilst a harmonised basis is phased in.



**22. What cost implications would arise if the use of XBRL taxonomies would be a mandatory requirement in Europe for the submission of ITS-related data to competent authorities?**

#### **COREP**

We are implementing a new system to produce the COREP returns in appropriate formats, including XBRL. There are potential additional costs associated with aligning our system with the structure of the XBRL taxonomy, but we are unable to assess this cost until we receive that structure.

#### **FINREP**

Although there will be an incremental cost arising from the use of XBRL, it is too early to determine the cost implications, until the details of the XBRL taxonomies are published.

**23. How would you assess the cost implications of the following two options?**

**(1) Implement the ITS as of the first possible reference date (31/03/2013)**

**(2) Delay the implementation of the ITS by 6 months (first reporting based on data as of 30/09/2013) and implement national interim solutions for reporting as of 31/03/2013.**

#### **COREP**

Finalisation of the COREP framework is dependent on the ITS, which in turn is dependent on the finalisation of CRD IV. Since CRD IV is not expected to be finalised before June 2012, a maximum 9 month period in which to finalise our systems development for live COREP reporting is unrealistic. Depending on the exact timing of the publication of the ITS, our systems may not be fully tested and implemented in time for live reporting. This may lead to manual workarounds and reiterations to correct interpretations. A short implementation period in an information vacuum would inevitably result in additional costs.

Against the backdrop of a challenging implementation timeline, we support a deferral in implementation of the ITS by at least 6 months. This would allow us adequate time to refine our processes and improve the quality of our reporting in advance of live reporting. However, this would depend on the nature of the interim solution proposed by our national supervisors.

#### **FINREP**

Given that our systems development for FINREP is still in its infancy and clarification is required on a number of areas, we recommend that additional time be allowed for its implementation. We suggest a deferral of 18 to 24 months.

**24. What would be the minimum implementation period to adjust IT and reporting systems to meet the new ITS reporting requirements? Please elaborate on the challenges which could arise.**

#### **COREP**

We estimate a 12 to 18 month implementation period from the finalisation of the ITS to adjust our IT and reporting systems.

The challenges are twofold. Firstly, where additional data items are required to be sourced within the group reporting systems, it would typically take a minimum of 9 to 12 months to specify, develop, test

and deploy changes across our entire global portfolio of IT systems. Secondly, once the IT changes are implemented and we are able to produce the reports, a validation period of 3 to 6 months would be required to test the new reporting processes and to identify and resolve data quality issues that became visible after the IT implementation.

## **FINREP**

The minimum implementation period would be 18 to 24 months, as stated in questions 21 and 23.

**25. What would be the minimum implementation period required for institutions already subject to FINREP reporting to implement the financial reporting described in this consultation paper?**

This question is not applicable to the HSBC Group.

**26. What would be the minimum implementation period required for institutions NOT subject to FINREP reporting at the moment to implement the financial reporting described in this consultation paper?**

As stated in our answer to question 21, an 18 to 24 month implementation period will be required from the date the rules are finalised.

**27. Would the required implementation period be the same for reporting requirements on an individual basis and on a consolidated basis?**

Whilst we would use similar solutions for consolidated and individual reporting, should we be required to adopt both bases simultaneously this would extend the lead time required on both. As discussed in our answer to question 19, there are additional costs and complexities to applying the rules at an individual level.

**28. Do restrictions (restricted cells are cells which do not have to be reported to supervisors - displayed in the COREP templates as grey/blocked cells) reduce the reporting burden?**

In principle, the restricted cells would reduce the reporting burden.

**29. Compared to previous versions of the COREP templates are there additional reporting requirements which, cause disproportionate costs?**

We believe that the following templates would cause disproportionate costs:

### **Group Solvency (GS)**

This template collects information at a very granular level in respect of individual entities within consolidation groups, yet the objectives are not clear.

It should be noted that the position of individual entities insofar as they impact on the HSBC Group is covered by our recovery and resolution plan (RRP). HSBC already produces a RRP covering the Group as a whole for our national supervisor, so we question why it is necessary to also complete the GS template.



A diverse and complex banking group like HSBC has thousands of legal entities within its consolidation groups, therefore it would be an extremely burdensome process to both determine the entities that meet the criteria for reporting the GS template and carry out the reporting by the relevant entity. The systems development required to source the data would be extensive. An institution is required to report the contribution part of this template when contributions to risk at entity level exceed 1% of capital requirements of the group or when contributions to regulatory capital exceed 1% of the total own funds of the group. Given the size of our group, the threshold of 1% is set too low. We therefore recommend a higher threshold of 5%.

The guidance is unclear about whether this template applies to reporting at the group consolidated level only and not in addition to intermediate sub-consolidated and solo consolidated levels. We would welcome clarification on this matter.

In addition, the requirements of this template stipulate that each reportable entity will be given a unique code identifier. We would like to understand how this will be managed in practice.

We would like to understand the purpose of gathering the information requested, as this may enable us to determine whether we have alternative sources of information that would nonetheless meet the EBA's objectives. However, with the template in its current form and together with our view that the template is not a clear requirement in the CRR, we recommend it is deleted.

#### **CR IRB Total**

We are unsure of the value of the information being collected in this template. It appears to be a duplication of data that is already collected in the individual CR IRB templates. Furthermore, some of the data in the CR IRB templates cannot be meaningfully consolidated, for example PD, LGD, maturity days, and number of obligors. Likewise, we recommend that this template is deleted.

#### **CR IRB Geographical Breakdown**

Our comments on the CR IRB Total template also apply to this template.

This template collects information according to FINREP asset classes. Financial and credit risk exposures will not reconcile as we do not currently report credit risk data by FINREP exposure classes. Our concern is that this would lead to misleading and/or inaccurate data being reported. Given that the CR IRB templates already capture a substantial quantity of geographical information by exposure class, the information requested is superfluous and we recommend that this template is deleted.

**30. Are the templates, related instructions and validation rules included in Annex I and Annex II sufficiently clear? Please provide concrete examples where the implementation instructions are not clear to you.**

Please refer to Appendices II and III.

**31. CR IRB – What is your assessment of cost implications of the new lines for “large regulated financial entities and to unregulated financial entities”? What is the most cost efficient way of incorporating this kind of information in the reporting framework?**

Identifying large regulated and unregulated entities to ensure that they are appropriately flagged in our systems is burdensome and a significant cost. This requires individual identification of every regulated

entity with annual turnover equal to or greater than EUR 70 billion from their most recent audited financial statements.

To facilitate the identification of these entities, we propose that the EBA compiles and publishes a list of regulated and unregulated financial entities to be reported, to encourage harmonised reporting.

**32. CR SA – What is your assessment of cost implications of the new lines to gather information about exposures without a rating or which have an inferred rating? What is the most cost efficient way of incorporating this kind of information in the reporting framework?**

The cost of identifying exposures without a rating or which have an inferred rating would be relatively modest compared to other costs to be incurred in relation to the project. However, overall these may prove more significant for a smaller bank.

**33. Are the templates included in Annex III and Annex IV and the related instructions included in Annex V sufficiently clear? Please provide concrete examples where the implementation instructions are not clear to you.**

There is limited guidance on a number of the detailed requirements and this will lead to differences in interpretation by institutions.

There are a number of internal consistency points and cross references that are unclear, but we will not be in a position to assess these fully until the validation rules are available in Q2 2012.

Some parts of the requirements seek to modify the accounting framework, although the advantages for doing this are not readily apparent, for example:

- The basis of CRR consolidation is unclear, and part 2 (1-Assets) paragraph 5 should be expanded to clarify the treatment of associates, insurance and non-financial subsidiaries. Our preference, as outlined in earlier comments, is for the basis of consolidation to follow the basis required by IFRS. Similarly there is insufficient detail in part 2 (4 - Income Statement) paragraph 29 to determine the approach to consolidation of insurance entities. A clear basis of consolidation is required to ensure the FINREP data set is understandable and comparable. .
- Part 2 (4 - Income Statement) paragraphs 23 and 24 require ‘interest on defined benefit plans’ and assets held for sale/disposal groups to be reported separately without any clear benefit from adopting this approach.
- The requirements in respect of ‘dirty pricing’ in part 1 (2 - Financial Instruments) paragraphs 14 and 17 are too prescriptive. IFRS uses clean pricing and this is how our systems have been configured, therefore the cost of adjusting our systems to apply ‘dirty pricing’ will be considerable.
- Table 13 makes reference to IFRS 13 which is not yet applicable.
- Tables 17.2, 17.5, 17.6 and 28.3 require disclosure of gains and losses on a gross basis whilst financial reporting is done on a net basis. System enhancement will be required to capture and retrieve this data.

Certain requirements are particularly onerous and we believe they add limited value from a regulatory stand point:

- cumulative changes in the fair value attributable to changes in credit risk (Tables 3.2, 3.4, and 21.2);
- loan commitments, financial guarantees and other commitments received (table 6.2); and
- amounts contractually required to pay at maturity (table 5).



Generally, we would encourage the EBA to adopt the definitions of the accounting framework (in our case EU-endorsed IFRSs) and only provide additional definitions where a breakdown is being requested beyond that prescribed by the accounting framework. If not, there is a risk that either the modified framework will be internally inconsistent (see comments above regarding treatment of insurance entities) or that significant parts of the regulator's resource will be diverted into ensuring the modified accounting framework is coherent and current as IFRSs evolve.

**34. Do the provisions of Article 8 (3) and 11 (3) lead to a reduced reporting burden?**

There is no significant impact for a large diverse group such as HSBC. It would provide a significant reduction in burden if the categorisations used in Table 14.1 (i.e. Domestic, EMU, Other EU and Rest of World) were applied to tables 10.1 to 10.3.

**35. What are the cost implications of introducing a breakdown by individual countries and counterparties?**

Most of the costs arise from applying these breakdowns, as this is information that management does not use for managing the business.

Tables 10.1 to 10.3 are amongst the most difficult tables to populate. Residence of counterparty is not our basis of capturing financial reporting data. Our financial reporting disclosures are based on the country where the transactions are booked rather than that of the residence of the counterparty (which may not be held in the source system).

Consequently, new systems will be required to gather the information from underlying source systems, which in turn will need to be reconciled to financial reporting data. The degree of difficulty will vary by entity, country and line of business.

**36. What are the cost implications of introducing a breakdown by economic sector by using NACE codes?**

We assume that NACE codes and SIC codes can be mapped, and that sufficient data is available in underlying source systems. However, we are already aware that certain jurisdictions such as Argentina do not use NACE codes at all or do not use SIC codes for all their businesses. The main cost will be to develop a mechanism for interrogating source systems, as described in our answer to question 35.

**37. Would other classification be more suitable or cost efficient?**

It would be helpful to allow institutions to aggregate smaller balances under one code where, due to the size of exposures, the industry risk is not significant for the institution. For example, disclosing balances only where these are greater than 10% of the total.

**38. What would be the difference in cost if the geographical breakdown would be asked only by differentiating between domestic and foreign exposures compared to country-by-country breakdown?**

This would be a significant cost saving. In practical terms, institutions could simply identify domestic exposures and report the remaining balance as foreign.

**39. What are the cost implications of introducing breakdown of sovereign holdings by country, maturity and accounting portfolio?**

The cost implications are significant. The way institutions manage this for risk purposes is not the same as the treatment of such items under accounting, and as such, this data is not currently readily available.

We currently make financial disclosures regarding certain European sovereigns as this is of interest to readers of our accounts. A proportionate response would be to set a level at which such reporting would be required (e.g. 2% of risk weighted assets, 10% of total capital, or 1% of total assets).

**40. How would you assess the cost implications on providing a geographical breakdown of these items with the proposed breakdown to domestic, EMU countries, other EU and rest of the world?**

Most of the cost arises from applying these breakdowns, as this is information that management does not use for managing the business - see answer to question 35. It is also unclear what regulatory objective is met by collecting this data.

**41. Would application of a materiality threshold similar to Article 8 (3) and 11 (3) (reporting the breakdown only if foreign exposures exceed 10 % of the total exposures) reduce reporting burden?**

There is no significant impact for a large diverse group such as HSBC - see answer to question 34.

**42. What would be difference in cost implications if breakdown would be requested only with differentiation between domestic/ foreign or alternatively country by country with similar threshold than in Article 8 (3) and 11 (3) compared to the proposal in the Consultation Paper?**

As in our answer to question 38, there would be a cost saving in practical terms as institutions could simply identify domestic exposures and report the remaining balance as foreign. We question the value of a geographical breakdown of liabilities by residence of counterparty, and note that such a breakdown will not be meaningful for traded securities.

**43. Are there specific aspects of national accounting framework that has not been covered or not addressed properly in the templates?**

This question is not applicable to HSBC.

**44. Does the IAS 7 definition of cash equivalents follow the practice used when publishing financial statements? How would this definition interact with definitions of IAS 39 for assets in held for trading portfolio?**

The definition of cash equivalents in IAS 7 applies to the reporting of the cash flow statement. There is no consistency between this definition and the definition of assets held for trading in IAS 39. Cash and cash equivalents include all amounts with an initial maturity of less than 3 months (including certain items classified as held for trading under IAS 39). However, items held for trading will also include certain items that are not cash nor cash equivalents.



**45. How do you assess the impact of reporting interest income and interest expense from financial instruments held for trading and carried at fair value through profit and loss always under interest income and interest expense?**

Such an approach would not be consistent with the way such securities are managed and reported in our income statement. Trading book items are normally managed together, and items designated at fair value are usually designated as such to eliminate an accounting mismatch. It is not clear that mandating this treatment would lead to a more meaningful data set, and we would recommend not mandating the treatment but allowing institutions to follow their existing GAAP.