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European Banking Authority
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Dear Sirs

Consultation Paper Draft Implementing Technical Standards On Disclosure for the Leverage Ratio under Article 451(2) of Regulation (EU) No 575/2013 (Capital Requirements Regulation-CRR)

HSBC welcomes the opportunity to respond to the EBA's Consultation Paper ('CP') Draft Implementing Technical Standards on Disclosure for the Leverage Ratio under Article 451(2) of Regulation (EU) No 575/2013 (Capital Requirements Regulation-CRR).

HSBC is one of the world's largest banking and financial services organisations with assets of USD2,723 billion at 30 September 2013. Headquartered in London, HSBC serves customers worldwide from around 6,600 offices in 80 countries and territories in six geographical regions: Europe, Hong Kong, Rest of Asia-Pacific, Middle East and North Africa, North America and Latin America.

Having reviewed the proposals, our key points are summarised below; and more detailed answers to the questions in the CP are included in Appendix I.

Precipitous

We believe that the EBA should consider the final rules on the Basel III leverage ratio framework and disclosure requirements that have just been issued by the Basel Committee on Banking Supervision ('BCBS') before progressing with the proposals in this consultation.

While the leverage ratio disclosure under the CRR will begin from 1 January 2015, the measure has not yet settled and it is therefore premature to discuss detailed disclosure templates. The leverage ratio measure is widely used but calculated in different ways by regulators across the globe. With the publication of the CRR in 2013, there was hope that a consistent leverage ratio measure could be achieved across Europe. However, given this preceded the BCBS final rules on the measure, there is as yet no definitive position within Europe, beyond a recommended timetable for transitioning to a final ratio and a date for its application. Despite this, certain national supervisors such as the UK have required disclosure ahead of the prescribed Basel and EU timetables, on a bespoke basis.

Given the proliferation of leverage measures, there is considerable market confusion about the basis of the calculation and the respective position of individual banks, resulting in an inability to draw comparisons between institutions. Against this backdrop, the standard disclosure format would be misleading for investors who may reasonably expect a consistent measure given the uniform disclosure. Furthermore, the just issued BCBS final rules on leverage ratio will result in further changes to the calculation and the disclosure on a global level.

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The EBA highlights in the CP that the proposed templates and instructions are subject to future change before they are finally adopted and implemented. It is also our expectation that regulators will align to the final Basel measurements and reporting templates. Given this, whilst we welcome the drive for better disclosure, we believe the EBA should consider the final BCBS rules on leverage ratio before progressing with proposals for detailed reporting templates.

Investor needs

The proposed template LRSum does not sufficiently address investor needs for reconciliation of the leverage ratio exposure measure to the accounting balance sheet and should be adjusted to address such needs¹.

Furthermore, the rigidity of the proposed templates, does not allow disclosures to be embedded with other disclosures or the flexibility to provide explanatory notes close to respective parts of the templates to provide a context in which users can properly assess the measure.

We are generally supportive of the global regulators' aim to achieve comparability of disclosure and believe that, for some disclosures, providing clear data field definitions for reporting templates from the outset will, to a certain extent, help to achieve this goal. However, we believe that requiring flow text disclosure to be reported within a template, as proposed e.g. for the process description in template LRQua, does not make such descriptions more comparable but will prevent them from being presented in the appropriate context, and allowing a free form format for the qualitative disclosures will aid investors understanding.

Judgemental

The proposed additional break down of off-balance sheet exposures by each material product type and related credit risk exposure for each conversion factor is based on materiality. It is therefore left to individual bank judgement to what extent an additional break down is required. This will result in disclosure that is not comparable and as such significantly restricts the usefulness of the information.

We appreciate the EBA's efforts to align the definition of data fields in the proposed reporting templates with the COREP definitions to avoid the need for the collection of an additional data set for public disclosure. However, the definitions of the proposed additional breakdown of off-balance sheet exposures for each material product type and related exposure² goes beyond the COREP requirements and we do not believe that it would provide useful information in its current form.

We also generally question the usefulness of a break down by product type given that other disclosures in the financial statements or the Pillar 3 document are not normally provided on a product level and it is therefore difficult to see how the information could add much value.

To provide useful information the data fields would need to be clearly and consistently defined without room for judgement and the breakdown required should align to a similar level of break down as other disclosures in the financial statement or Pillar 3 document (e.g. exposure class, portfolio level) to enable users to analyse information in the context of other disclosures provided. However, care must be taken when constructing the definitions to avoid disclosures becoming operationally burdensome.

¹ The BCBS just published the template 'Summary comparison of accounting assets vs. leverage ratio exposure measure' as part of their *Basel III leverage ratio framework and disclosure requirements* which to a large extent provides for such reconciliation; though we note that it does not allow for explanation of the adjustments due to the difference in regulatory and accounting consolidation method for associates.

² Table LRCom, {15a;*}, {EU-15.1a*}, {EU-15.2a;*} and {161;*}

Frequency and Operational Burden

While we appreciate that frequency of disclosure is not included in the mandate given to the EBA, such detailed disclosure templates cannot be fully considered without an understanding of the frequency at which they would be required. Without this, it is not possible to form a view on the operational effort involved. It is also not clear from the consultation where such disclosure should be provided.

In our view such detailed disclosure templates should only be required on an annual basis at the same time as the publication of banks' Annual Report and Accounts. However, given the lengthy prescribed format of the various templates we believe that the disclosure would best be provided on a website or in the Pillar 3 report rather than being included in the Annual Report and Accounts.

Notwithstanding our above concerns about the proposed data templates, we generally support the alignment of disclosure templates to the Basel requirements but, as noted above, believe this has to be done on the basis of the now finalised Basel templates.

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

Yours sincerely,



Russell Picot

Appendix 1

1. Are the provisions included in these draft ITS sufficiently clear? Are there aspects which need to be elaborated further?

Subject to our responses to questions 2, 3 and 4, we agree that instructions in these draft ITS are sufficiently clear and do not require further elaboration.

2. Are the instructions provided in annex 2 on the balance sheet reconciliation of LRSum sufficiently clear? Should the instructions for some rows be clarified? Which ones in particular? Are some rows missing?

Subject to our comments below, we agree that the data field definitions are generally clear and do not require further clarification.

However, we note that the instructions for the completion of table LRSum in *Part II: Template related instructions*, point 1.3.c contain an error, as they refer to ‘column 20 of the table LRCom’. Template LRCom template does not have a column 20 and given the context of the instruction we believe that the reference should be to column 20 of table LRSum.

In addition, the reference to collateral in the heading for data field LRSum {1;010}, *On-balance sheet items (excluding derivatives and SFTs, including collateral)*, is unclear as it is not sufficiently clarified in the guidance to the data field. We assume the reference to collateral relates to the assumption that, in the event that the firm nets cash collateral provided against negative derivative mark-to-market, the balance sheet be grossed up for this collateral amount. It would be helpful if this could be specified, and indeed whether this caption is intended to capture any other specificity relating to collateral.

As highlighted in our letter, we are also concerned that the proposed template LRSum does not sufficiently address investor needs for a reconciliation of the leverage ratio exposure measure to the accounting balance sheet, as it solely shows the financial statement values next to the regulatory values without providing room for explanation of the differences, specifically the differences in scope of consolidation which also cannot be deduced from any other part of the proposed templates. The proposed template would therefore require information that will already be disclosed based on investor demand, to be repeated in a less useful format. We note that the leverage ratio disclosure template³ just published by the BCBS as part of their *Basel III leverage ratio framework and disclosure requirements* provides for such reconciliation, though it also does not allow room to explain the adjustments due to the differences in regulatory and accounting method of consolidation for associates.

3. Are the instructions provided in annex 2 on the breakdown of leverage ratio exposure of LRCom and LRSpl sufficiently clear? Should the instructions for some rows be clarified? Which ones in particular? Are some rows missing?

Subject to our comments below, we agree that the data field definitions are generally clear and do not require further clarification.

³ Template ‘Summary comparison of accounting assets vs. leverage ratio exposure measure’

The proposed additional break down of off-balance sheet exposures (LRCom, rows 15a, EU-15.1a, EU-15.2a and 16a) is based on materiality and it is not clear how a product would be identified as material. The guidance only outlines that, ‘*Institutions shall include an additional row for each material product type that is subject to the treatment of [LRCom; 15; *] [LRCom; EU-15.1; *] [LRCom; EU-15.2; *] [LRCom; EU-15.2; *], give its main characteristics (name of the products and type) and the related leverage ratio exposure*’.

Without a clear definition of the breakdown that is required, the proposed additional break down of off-balance sheet exposures would be based on an individual bank’s judgement. This will result in disclosure that is incomparable between banks and therefore significantly restricts the usefulness of the information.

We also generally question the value added by a breakdown of off-balance sheet exposures by product type, given that other disclosures in the financial statements or the Pillar 3 document are not normally provided on a product level.

The proposed additional breakdown of off-balance sheet exposures goes beyond the COREP requirements. To provide useful information the data fields would need to be clearly and consistently defined without room for judgement. Furthermore, the breakdown should be required at a similar level to the breakdown of other disclosures in the financial statement or Pillar 3 document (e.g. exposure class, portfolio level) to enable users to analyse it in the context of other disclosures provided. However, care must be taken when constructing the definitions to avoid disclosures becoming operationally burdensome.

In addition, we note that the guidance to data field LRCom {EU-10a; *} requires clarification. The last paragraph of the guidance can be read to imply that the counterparty exposure measure to be reported in this field excludes ‘normal’ repos and only includes reverse repos and stock borrowing (and the small population, if any, of repos and stock loans where the transaction is derecognised for accounting purposes). This is because the final paragraph of the guidance for this item requires us to exclude the cash and security legs of repos and stock loans. We do not believe that this is the intention of the regulation and would welcome clarification.

We recommend the final paragraph to be deleted together with the mirroring guidance in LRSum {1;010} and LRCom {1;*}. If, however, it is indeed the intention of the regulation that ‘normal’ repos and stock loans be excluded from the calculation of the SFT exposure measure, the first main paragraph of the guidance could instead be amended as follows:

*The exposure for repurchase transactions, securities or commodities lending or borrowing transactions, long settlement transactions and margin lending transactions calculated in accordance with Article 220 (1) to (3) Regulation(EU) NO. 575/2013. Transactions which are included in field LRCom {1; *} should be excluded from this calculation.*

We also note that there is room for interpretation as to the exposure measure to be included in the data field LRSp1, EU-30: ‘Total on-balance sheet exposures (excluding derivatives and SFTs)’. We are assuming that this data field is based on the prudential exposure measures. If this assumption is correct this could be clarified by including a statement to the effect that this number should equal to {LRSum; 01; 20}.

4. Our analysis shows that no impacts incremental to those included in the text of the Level 1 text are likely to materialise. Do you agree with our assessment? If not please explain why and provide estimates of such impacts whenever possible.

We generally agree that no significant impacts incremental to those caused by the provisions in the CRR are likely to materialise. However, the significance of the incremental impacts of the proposals cannot be fully considered without an understanding of the frequency at which the disclosure templates would be required. Without this, it is not possible to form a view on the operational effort involved. In our view such detailed disclosure templates should only be required on an annual basis at the same time as the publication of banks' Annual Report and Accounts and the above statement should be seen in this context.

The CP did not include a question on template LRQua, however, as highlighted in our letter, we have concerns about such a reporting template for flow text. Such a template will prevent the information required by the template to be embedded with other disclosures which would provide a context for users to properly assess the measure. The disclosure of the required information in a template would also not make such descriptions more comparable and we therefore question the benefit of this template. To complement the quantitative disclosures (LRSum, LRCom, LRSpl) it would be better, in our view, to disclose the required qualitative information on the leverage ratio in free format around the tables rather than within specific text boxes.