Douglas J Flint CBE
Chief Financial Officer
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16 April 2010

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

Dear Sirs

Consultative Document BCBS 165 – International Framework for Liquidity Risk Measurement, Standards and Monitoring

HSBC welcomes the opportunity to comment on the Basel Committee's proposals, and strongly supports the Committee's objectives of strengthening global liquidity standards in order to promote a more resilient banking sector. If the aims of the Committee are to be met then it is imperative that a level playing field is created and that the proposals are implemented on a simultaneous and comparable basis, after taking into account relevant legal, tax and capital market differences across jurisdictions.

HSBC is very supportive of all intentions to strengthen the liquidity risk standards across the banking sector and we generally welcome the proposals set out in your CD. The Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) are very similar to measurement concepts already applied throughout the HSBC Group.

Our main comments on the CD are summarised below. Further detailed responses are set out in the attached appendix 1.

- Standardised Regulatory Reporting Formats. We would encourage all efforts by regulators to harmonise international reporting requirements and to agree on a standard and consistent format of regulatory reports. Having to meet a wide range of differing regulatory reporting formats and differing data requirements on behalf of the many regulators we deal with places a heavy administrative burden on an internationally active banking group such as HSBC.

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- Level of Prescription. In our opinion, the level of prescription in the CD is too high. We would prefer local regulators to assess a bank's liquidity requirements based on common guidelines set by BCBS, but with regard to the strength of that bank's liquidity risk management framework, the market place, the nature of the bank's activities, customer base and balance sheet structure. This would mean a greater reliance on bank's internal assumptions for the liquidity risk behaviour of assets and liabilities but would also require regulators to validate these assumptions. A single prescriptive framework cannot be applied to all banks across all geographies (we note that the FSA's new framework allows a "risk management adjustment" and gives a greater degree of recognition to a bank's internal behavioural assumptions).

- Stress Factors. We believe the assumed draw down (100 percent) on committed liquidity facilities given to non-financial corporate customers is too aggressive and significantly at variance with experiences across the industry during the recent period of stress.

- Liquid Assets. We support your intention to consider a broader range, beyond government issued debt, of what qualifies as "liquid securities". However, we believe there is scope to broaden your consideration beyond high quality corporate and high quality covered bonds; and suggestions are provided in appendix 1. Furthermore, we believe a classification of 'Tier 2' securities should be considered, with appropriate haircuts. These 'Tier 2' securities would not be sufficiently liquid for inclusion in the LCR but could be liquidated between 1 and 12 months and therefore included in the numerator of the NSFR.

- Intra-group Transactions. The treatment of intra-group funding and committed facilities should be symmetrical as long as both the provider and the recipient are held accountable to the same liquidity risk management standards and there are no restrictions on the movement of funds.

- Consolidated Reporting. The suggestion that liquidity risk monitoring tools should be applied on a group consolidated basis will mask any entities within a banking group which have a weak liquidity position unless there is complete transferability of liquidity across that banking group. As this is unlikely to be the case, we feel it is much more appropriate to apply the metrics at an individual legal entity level.

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- Disclosure. We believe a cautionary approach is needed towards increased quantified public disclosures of liquidity risk. The consequences of misinterpretation are very high. This is particularly the case in light of the intended prescriptive approach in the CD referred to above, and the inability of banks to use internal assumptions to make behavioural adjustments. Non-disclosure of LCR and NSFR would avoid inappropriate comparisons between banks being made in the market place, where such comparisons would be misleading, and would also allow for banks to temporarily slip below 100 percent for valid liquidity reasons as long as they do so with their regulator's agreement.

In conclusion, we would like to stress the need for an impact assessment of this proposal together with the other pending regulatory changes (on capital, resolution risk management etc). We believe that there is a serious risk that the compounding effect of these proposed reforms will have severe future consequences for both the availability and the cost of credit, with negative implications not only for the banking sector but for the economy as a whole.

As part of our overall efforts to work in partnership with governments and regulators in improving the financial system for the future, we should be very pleased to discuss or develop the ideas in this response with you.

Yours faithfully

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