



Russell C Picot
Group Chief Accounting Officer

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

17 February 2012

Dear Sirs

HSBC welcomes the opportunity to comment on the Basel Committee's consultation: 'Definition of capital disclosure requirements'.

We acknowledge the objectives of the measures proposed here, within the wider scope of work to underpin Basel III and secure the stability of, and confidence in, the financial sector. We support clear, comprehensive disclosures by banks of their capital position, and our discussions with users and those who support them confirm that they would welcome greater conformity in such disclosures, above all to support comparative analysis of banks on a consistent basis, within and across jurisdictions.

While agreeing with the thrust of the proposals, however, we remain unconvinced of the usefulness of banks routinely completing highly detailed standard templates and the very granular reconciliation proposed. The objectives of transparency and market discipline can only be achieved if information is both relevant and understandable. Our view is that the level of detail envisaged here will not foster best understanding by users, the focus of whose interest is on key aspects of the inter-relationship of regulatory capital strength and the capacity to generate returns on capital employed.

We believe that it would be more useful, especially for major banks, to provide such key information with a supporting narrative, rather than complex, technical returns. Note that we already disclose with our financial statements a table of our regulatory capital structure, setting out its derivation in relation to the IFRS balances.

Moreover, all banks are grappling with multiple changes in requirements and the associated reporting burden under new rules which, in important respects, for example the regulatory eligibility of certain capital instruments under CRD 4, remain to be fully worked out. In our view, the proposals in this consultation need to be integrated as far as possible, in nature and timing, with the final development of those rules and with other regulatory and financial reporting initiatives currently underway at global or regional levels. Examples are the European COREP and FINREP projects, taking effect in 2013.

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Our detailed comments are set out below. I should be glad to assist further in discussion of these important matters, if that would be helpful.

Yours sincerely

A handwritten signature in blue ink that reads "Russell Picot".

Russell Picot
Group Chief Accounting Officer

cc. Rebecca Jackson, Financial Services Authority

Annex to letter 17 February 2012: 'Definition of capital disclosure requirements'

Standard templates - general remarks

We support in principle the promotion of consistent disclosures through the use of standard formats that can accommodate all material and useful line items, subject always to the principle of materiality, to coherent integration with other reporting initiatives, and to their being flexible enough to accommodate desirable variations.

Users tell us that information in the form of Annexes 1, 3 and 4 of the consultation would be helpful to them, and in principle we support such templates. We question the benefit, however, of routinely completing highly detailed, standard templates. We are not convinced that, to enable market participants to compare the capital adequacy of banks across jurisdictions, it is essential for banks to disclose a "full list" of capital items and regulatory adjustments (paragraph 3). For example, the 82 lines of the Annex 1 template, plus potentially further lines for nationally specific regulatory adjustments, and the complexity of the 3-step reconciliation under Annex 2, are likely to result in excessive detail, especially for large and complex banks.

Regulators for their own purposes use relatively consistent reporting bases for banks, but for these market disclosures we suggest it would be advisable, at least initially, to accommodate variations between jurisdictions. Such formats could build on existing, publicly available mandatory templates and encourage more conformity over time, subject to any necessary or desirable national, regional or institutional differentiation, which should be clearly identifiable.

In our view, supervisors and banks should be encouraged to use judgement to focus disclosures on aspects materially interesting to users, to avoid these aspects becoming obscured by a large number of extraneous line descriptions. For example, we see little value added in providing detail of amounts that fall below prescribed regulatory thresholds (see Annex 1, lines 23-25 and 69-72).

We also have concerns that a template approach may encourage users to assume, wrongly, that line items are always comparable. The consultation acknowledges that differences in accounting standards and practice between jurisdictions will prevent comparability between the disclosures of banks across the market. For example, as a result of differences in the offsetting requirements between IFRS and US GAAP even line items that appear to be the same may contain significant differences, and the same limitation applies to internationally differing approaches to regulatory consolidation.

Similar considerations apply to the transitional template at Annex 4. where, in view of the differing status of Basel rules implementation globally, it would be necessary for a supplementary commentary to set the reported data in the context of the regulatory background and the circumstances of the individual institution. The simple arithmetic of the transitional impacts alone would not provide users with a good understanding.

Finally, we consider that the underlying policy objectives of greater transparency and consistency could equally, or perhaps even more satisfactorily, be met via standard templates at a higher level of materiality, but complemented by targeted intervention by regulators: to lift the quality of compliance at a national level or indeed that of individual banks if necessary. We suggest that such flexibility would serve well the implementation of conclusions of peer review work, at both supervisory and institutional level, and encourage best practice while avoiding undesirable complexity.

Reconciliation (Annex 2)

We are unconvinced of the usefulness of the highly granular reconciliation proposed in this template. We see limited value in publishing a full regulatory balance sheet, in particular the detail of individual line items on the liabilities side, or in publishing the type of line by line reconciliation proposed, which goes beyond the reconciliation of regulatory capital elements envisaged by the Basel III rules.

For larger, complex banks there will be considerable "many-to-many" linkages and cross-references between the accounting and regulatory balance sheets. We believe that the likely complexity will hamper users' view and assessment of the matters of central interest to them, and may result in greater confusion and low 'take-up' of the profusion of data, however laboriously collated and reported.

Irrespective of banks' capacity to resource such data, we believe our focus needs to be on users' capacity to process and analyse it, and the benefit derived from doing so. From our conversations with users, there appears to be some doubt that this Annex will best meet their needs. We suggest that a more useful approach would be for banks to provide information quantifying and explaining the material adjustments to the regulatory balance sheet, in the context of transitioning to Basel III.

We understand the interest in information on entities whose treatment differs between accounting and regulatory consolidations. However, there is little benefit in lists alone, which per se convey limited useful information and on which the number of entities could be large, in HSBC's case between 50/100, many of them relatively insignificant. We suggest that the need can more effectively be met by naming the material entities (or groups of entities engaged in similar business), supplemented by high-level information to assist users' understanding of the key financial impacts in aggregate (on capital, say, and total assets) according to each type of material adjustment, e.g. the deduction of non-banking interests, and the consolidation of associate entities.

Main features template (Annex 3)

Users tell us that summaries extracting the key features of capital instruments would be of practical help to them. We understand this, and support this Annex in principle, while noting that summary information on the composition of HSBC's capital is provided today in our financial statements, with these and our Pillar 3 disclosures, as well as comprehensive details

of individual instruments, easily to be found in the Investor Relations domain on our public website: www.hsbc.com.

It must be recognised that extracted details are no basis for investor decisions, being no substitute for the full terms and conditions, which in our experience professional users should and will continue to wish to consult in the context of the full prospectus. Summaries would need to be caveated accordingly.

In purely practical terms, the number of instruments that we have in issue across our group is very large. In fact, even on our website a composite spreadsheet would be not at all 'user-friendly', and a series of individual summaries preferable. A useful additional disclosure on capital instruments could be a summary of them, by capital type, specifying the amounts that are/are not Basel III compliant.

Other disclosure requirements

We agree that Basel global standards should lay claim to key terminology such as 'Common Equity Tier 1', to support uniform interpretation. It is also important for terminology to be well defined, which is not yet fully the case for Basel III, despite the helpful FAQ on capital issued by the Committee. Those FAQ could be expanded to support implementation of these proposals.

Timing, frequency, scope and location of disclosures

While we could support first disclosure at the time of the first set of financial statements relating to a balance sheet date on or after 1 January 2013, we believe that the first disclosure would benefit from being made in conjunction with the first set of fully audited financial statements, which in our case would be at 31 December 2013.

Thereafter, we believe mandatory disclosure should be no more frequent than semi-annually, as we believe that this would be most useful for market participants. We would have no issue in principle with summarised disclosures on a more frequent basis, aligned to our other material capital disclosures. Such higher frequency should be at an institution's own discretion, guided by the needs of their investor base.

Qualifying the above, we note that many rules of the new capital regime remain to be worked out, for example on the regulatory eligibility of certain capital instruments under CRD 4. There is a case for postponing implementation until there is greater clarity, so that the proposals set out here can be integrated as far as possible, in nature and timing, with the final development of those rules and with other regulatory and financial reporting initiatives currently underway at global and regional levels, for example the European COREP and FINREP projects, taking effect in 2013.

On scope, our assumption is that these disclosures are intended to be made at a group consolidated level, and confirmation of this would be helpful. We believe that this is what

users would expect to work with, and that disclosure at any lower levels would be of rapidly diminishing value.

We are strongly of the view that banks' annual and interim reports should continue to be required to disclose only summarised information on the capital position, with these eventual templates and supporting detail to be available on a bank's website, clearly sign-posted from those reports. This is because we consider such reports to be primarily for the information and benefit of shareholders and other major stakeholders in the performance of the enterprise, while technical details of individual instruments and supporting information should be provided in another location where they can be regularly maintained up to date.

We publish both HSBC's Pillar 3 disclosures and details of our capital instruments accessibly in the Investor Relations domain of our public website, and we suggest that this is also the most appropriate place for any future disclosures in this field, with brief introduction in, and a clear link from, our annual and interim reports.