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Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH- 4002 Basel
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26 May 2016

Dear Sirs,

Pillar 3 disclosure requirements – consolidated and enhanced framework

HSBC welcomes the opportunity to respond to the Basel Committee on Banking Supervision's ('Committee') consultation paper on Phase 2 of Pillar 3 disclosure: '*Pillar 3 disclosure requirements – consolidated and enhanced framework*'.

We regard Pillar 3 as a central element of our suite of financial disclosures, alongside our annual report and accounts and other reporting to the markets. We support the Committee's ongoing review of the Pillar 3 standards to improve the usefulness of these disclosures for investors and other users, and it is against this measure that we provide our feedback on these proposals.

We have summarised key comments below and provide detailed comments by template in the appendix.

Precipitating complex ongoing policy developments

While we support the work of the Committee to complete revisions to the Basel 3 framework, we strongly believe that the underlying policy proposals need to be finalised before any related disclosure requirements are introduced.

The Committee has proposed comprehensive revisions to the Basel framework over recent years, many of which are in draft or unpublished. Various quantitative impact studies ('QIS') are also being undertaken and their influence on the calibration of final standards is yet to be informed. Feedback provided on moving policy targets cannot be considered complete and could result in misleading, or irrelevant disclosures, which could have unintended negative effects. We therefore consider it necessary that the consultation period for disclosures should be extended beyond the finalisation of the related policy frameworks to obtain complete and balanced feedback.

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Hypothetical RWAs

The proposal to disclose hypothetical RWAs is a key example of pre-emptive disclosure, whereby the policy rationale is as yet unpublished and subject to consultative scrutiny. This proposal not only precedes finalisation of the Committee's work on the capital floor but risks setting a de facto floor which could undermine the credibility of the overall IRB approach.

Given the Committee has already undertaken considerable work to revise risk-weighted measures across Pillar 1 risks, we believe that it is necessary to see how these policy developments materialise before considering the introduction of any additional disclosure metrics (the nature of which will be unfamiliar to the market, and the value of which will be uncertain).

We are concerned that the proposal to require recalculation of RWAs under the standardised approach for all Pillar 1 risk types would lead to a new metric divorced from banks' binding capital requirements. We do not believe this will enhance confidence in the capitalisation of the banking sector.

It is important to note that the proposed hypothetical disclosure would neither reflect banks' risk management practices nor achieve comparability – hence undermining the usefulness of such a disclosure to users. For example, a variation between modelled and non-modelled RWAs could equally be explained by a bank targeting low risk customers or by poor quality models that underestimate risk. Specifically, in the UK residential mortgage market, HSBC and many other mortgage lenders have average risk weights significantly lower than the equivalent standardised risk weights, driven by both very low LTV profiles and low historic loss rates. Here, the proposal would provide no insight into the underlying IRB models used, the quality of the underlying assets nor achieve comparability with other banks.

Under these proposals, IRB banks would be required to undertake parallel calculations and assessments of IRB and standardised RWAs for all risk types, across the entire product lines within a compressed timeframe. This is a significant operational demand. At this conceptual stage ahead of policy consultation, it is not meaningful to assess the systems and resource challenges to achieve semi-annual reporting in conjunction with financial disclosures – or indeed have a meaningful discussion about the cost of implementation versus benefit for users.

TLAC disclosures

We support the need to disclose clear and meaningful information in respect of banks' TLAC positions. In particular, it is important for users to fully understand how TLAC requirements apply, for external creditors to understand their position within a bank's creditor hierarchy and the extent to which they are likely to be subject to losses. However, the proposals are again premature, pre-empting policy. Consequently, their proposed form gives rise to numerous questions, as set out in the appendix.

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In our view, it is too early to settle on harmonised disclosure templates due to ongoing national implementation of FSB TLAC standards and the existing uncertainty around key aspects of the framework, such as the regulatory treatment of holdings of TLAC which is yet to be finalised. We therefore propose that the finalisation of uniform TLAC disclosure templates is deferred until the regime is fully determined and bank's resolution strategies have been agreed and finalised.

Notwithstanding timing issues, a fundamental concern with the proposed approach is that it fails to recognise that the scope of application of regulatory capital requirements and TLAC requirements is different. Namely, capital adequacy requirements currently apply on a group consolidated basis whilst TLAC requirements apply on a resolution entity/group basis. Consequently, we propose that regulatory capital adequacy disclosures are made at a group consolidated level and are kept separate from TLAC disclosures, which should only be made at resolution group/entity level subject to the use of a materiality threshold.

Resolution is legal entity driven and therefore disclosures for TLAC should only be in respect of resolution entities with a focus on the risk profile of its resolution group subject to local regulatory risk requirements and its creditor hierarchy. The latter will depend upon the local bankruptcy or resolution regime, each of which varies across different jurisdictions.

Furthermore, if harmonised templates are to be introduced, it is imperative that these are only in relation to external TLAC issued by resolution entities. We question the value of disclosing any information on internal TLAC given bail-in is expected to only occur at resolution entities with losses imposed on holders of external TLAC.

Volume, complexity and proprietary disclosures

The volume of Pillar 3 disclosures will grow significantly following the implementation of both the Phase 1 and 2 reviews, which collectively propose 67 templates and tables. The consequences of increasing volume are an increase in the complexity and inter linkage of disclosures and would necessitate sizeable explanatory information and commentary beyond that mandated in the requirements. Phase 1 is yet to go live and warrants sufficient time for the market to absorb these disclosures before consideration is given to further disclosures, once the relevant policy pipeline has been finalised.

We welcome the Committee's proposal on consolidating existing and prospective templates into a single Pillar 3 framework. However, we believe that certain disclosures remain better placed outside a Pillar 3 document and advised to the reader through signposting. We have highlighted specific instances where signposting is preferable in the appendix.

We appreciate the exemptions provided in Phase 1 for proprietary information, which we believe applies to aspects of your market risk proposals. These require disclosure of granular desk level information which risks revealing sensitive information (e.g. trading strategy, the positioning and size of trades) that is considered proprietary. This information may be exploited by competitors or not be fully understood by the broader market. Additionally, as we noted in our response to the Committee's final consultation on the Fundamental Review

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of the Trading Book, this would not yield comparability due to banks' inherent differences in how trading desks are structured.

Implementation timeframes

We are committed to implementing enhanced Pillar 3 disclosures which are useful to investors and other users of our external reporting to the market, and we have already set up internal projects to achieve this. However, in the process of undertaking this work, we observe significant challenges in implementing in accordance with the proposed timeline.

The revised Pillar 3 standards require a bank's Pillar 3 report to be published concurrently with its financial report. However, the volume of disclosure being proposed risks extending the publishing dates particularly for the interim disclosures and thereby affecting the provision of timely financial performance information to the markets, as well as reducing the opportunities for banks to raise external capital to fulfil capital and TLAC requirements.

Given the extent of revisions to the Basel 3 framework, QIS exercises will be essential to determine second/third order impacts and will inevitably lead to change and recalibration of the final rules. The volume, frequency and granularity of the proposed Basel disclosures will require the re-design of our RWA calculation engine and related reporting systems. In order to undertake these significant actions to ensure delivery of banks' Pillar 3 documents, we strongly request the Committee reconsider the implementation timelines and allow at least two years between the finalisation of the disclosure standard and its implementation.

Conclusion

We are supportive of the Committee's continued efforts and active engagement with the industry and user community in enhancing Pillar 3 disclosures. However, we reiterate our request for the Committee to consult on disclosures once the policy framework has been finalised. This will avoid having to revisit both the disclosure proposal and any unintended repercussions as a result of introducing premature disclosure requirements.

Given that the development of the post-crisis regulatory framework is incomplete, we view that Pillar 3 disclosures should be a live and dynamic requirement reflecting the evolving regulatory landscape. We welcome further Pillar 3 reviews by the Committee and will work with the Committee, industry and user community to provide constructive feedback.

We would be pleased to discuss any of our comments further with you.

Yours faithfully



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Detailed comments on individual tables and templates

Part 2: Overview of risk management, key prudential metrics and RWA

Template KM1: Key metrics (at consolidated group level)

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Useful	Largely appropriate	Quarterly: Appropriate	End-2017: Appropriate

General comments:

- We support the presentation of key regulatory information in summary metric form.
- KM1 includes elements from template TLAC1: Capital and TLAC composition for G-SIBs (due for implementation 1 January 2019). However, for a MPE group for recovery and resolution purposes, we challenge the requirement to produce TLAC1 on a group consolidated basis as it is not a meaningful measure. See later comments on template TLAC1.

Recommended changes:

- TLAC disclosures and related linkages to TLAC templates for MPE banks at a consolidated level should be removed.
- Expand KM1 to include all national regulatory buffers that are imposed on banks, in order to convey a comprehensive picture of the bank's capital adequacy, with the exception of those subject to confidentiality (e.g. the PRA buffer in the UK).

Points where clarification is required:

- Row 12 of KM1 requires the disclosure of 'CET1 available to meet buffers after meeting the bank's minimum capital requirements, and, if applicable, TLAC requirements'. Please clarify if 'minimum capital requirements' refers to Pillar 1 or Pillar 1 and Pillar 2 requirements. The same clarification is needed for row 68 of TLAC1.

Template KM2 – Key metrics – TLAC requirements (at resolution group level)

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Useful	Appropriate	Quarterly: Inappropriate	1 Jan 2019: Appropriate

General comments:

- We support and agree that this template should be only disclosed on the basis of a resolution group and not on a group consolidated basis.
- This template is to be presented for all resolution groups. Given a MPE bank will have multiple resolution groups, this will result in an extensive volume of disclosures that are not likely to change significantly quarter on quarter. As such, it is inappropriate to require disclosure on a quarterly basis. Furthermore, there also appears to be a disconnect with TLAC1, which is required to be published on a semi-annual basis.
- In the absence of a materiality threshold for disclosure, there is a risk that a large volume of detailed information will obscure what is generally useful and impede users' ability to digest, especially since resolution groups and TLAC are new concepts in the regulatory framework.

Recommended changes:

- It is necessary that the RWAs and TLAC requirements disclosed in this table are based on local requirements imposed on the resolution entity rather than any group applicable requirements.
- Where a bank is subject to a MPE resolution strategy which will have multiple disclosures of KM2, the template should only be disclosed quarterly for material resolution groups, i.e. those which constitute >5% of group RWAs. Immaterial resolution groups, which constitute < 5% of group RWAs, should only be required to disclose on a semi-annual basis, as aligned with TLAC1.
- The accompanying narrative to these templates should extend to qualitative narrative on the banks' individual resolution strategy. This is necessary to enable users of the disclosure to understand the disclosures, provide context and understand the underlying basis for the multiple disclosures of the same template by a G-SIB subject to a MPE strategy.
- It is necessary for the template to include in a footnote that 'available TLAC' disclosed in KM2:1/a and 'Total RWAs' disclosed in KM2:2/a, if aggregated across all resolution groups will not necessarily equal or directly correspond to values reported for 'Total Capital' disclosed in KM1:3/a or 'Total RWAs disclosed in KM1:4/a. Specifically, total RWAs disclosed in KM2 will be calculated based on resolution group applicable requirements which are likely to differ from RWAs calculated on consolidated group applicable requirements disclosed in KM1.

- Furthermore, ‘Total Capital’ disclosed in KM1 will not correspond with all regulatory capital included in ‘Total TLAC’ due to the differing eligibility criteria. For example, non-CET1 regulatory capital issued by subsidiaries will be included in ‘Total Capital’ but cannot be included in ‘Total TLAC’ (post 2022). Clear and precise text, possibly in a footnote, is vital to ensure that users do not make inaccurate or meaningless inferences between the group consolidated view and resolution groups view of G-SIBs especially where there is more than one resolution group.

Points where clarification is required:

- Given TLAC requirements will be based on local implementation applicable for each resolution group, it is unclear how disclosure requirements will take this into account.
- It is unclear how and whether disclosure requirements are intended to be imposed by the group regulator to resolution entities which are incorporated outside the home jurisdiction and therefore outside of its regulatory powers.

Template OV1 – Overview of RWA

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Useful	Appropriate	Quarterly: Appropriate	End-2017: Inappropriate

General comments:

- This template has been updated to reflect the operational risk framework and the new securitisation framework and is proposed to be implemented from end-2017. However, the standardised operational risk is still under consultation and the securitisation standards are to come into effect in January 2018. This makes the end-2017 implementation date for OV1 impractical.

Recommended changes:

- Postpone the implementation date of this modified OV1 to be in line with the implementation of the securitisation standards in January 2018. Banks should use the OV1 template prescribed in the January 2015 Pillar 3 disclosure standards until this point.
- Recommend accompanying narrative highlights the methodology in force given the potential for differences in national implementation.

Points where clarification is required:

- None.

Template HYP1 – Hypothetical RWA calculated according to the standardised approaches as benchmarks to internally modelled RWA

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Not useful	Inappropriate	Semi-annual: Inappropriate	TBD

General comments:

- We appreciate the demand from the user community for greater transparency over banks' modelling practises and would support provision of any additional disclosures that would improve the understanding of banks' capital requirements. However, we do not believe this is achieved through the proposed disclosing of hypothetical RWAs based on standardised approaches.
- We do not believe the re-computation of RWAs under the standardised approach across all Pillar 1 risk types would help the Committee address unwarranted RWA variability, nor achieve true comparability between banks. Similarly, the hypothetical RWAs do not reflect the banks' risk profile and risk prompting the calculation of misleading capital metrics causing misrepresentation of banks' capital adequacy in the financial market. It is unclear how the comparison between standardised and modelled numbers could be disclosed without creating misconceptions of banks' capital levels.
- We do not believe that disclosures should pre-empt policy making and policy consultations in this respect are not forthcoming. The disclosure of hypothetical standardised RWAs will set a de facto capital floor which risks undermining both the modelled approach and the Committee's own proposal on a capital floor where different calibrations are suggested.
- We are currently implementing a number of regulatory changes including Phase 1 of Pillar 3. The disclosure requirements in HYP1 and HYP2 would entail further re-design of the RWA calculation engines across major risk types.

Credit risk

- Standardised approaches were not designed to be the method of choice for sophisticated, multinational financial institutions, but were a basic approach from which banks would migrate to more advanced approaches and for less developed banks to utilise on a permanent basis. Standardised approaches are therefore inappropriate as a benchmark for internally modelled approaches. There is limited merit in directly comparing IRB and standardised RWAs as the calculations are different by design, and variability is not only expected but desired to allow for true risk sensitivity and to encourage competition and more sophisticated risk management practices.
- The degree of discrepancy between approaches could vary significantly depending on risk types and exposure classes and the overly simplistic comparison proposed gives little insight into the cause and validity of any variability. For example, a large

variation could be caused where an IRB bank exclusively targets low risk exposures or where an IRB bank creates a poor quality model which does not reflect the underlying risk of its assets. For example, in the UK residential mortgage market, HSBC and many other mortgage lenders have average risk weights significantly lower than the equivalent standardised risk weights, driven by both extremely low LTV profiles and low loss rates. The proposed templates make no distinction between the different natures of the two approaches and will not provide useful insight into the IRB models in place nor the quality of the underlying assets.

- The calculation of hypothetical RWAs for credit risk would require a multi-step calculation. Firstly, modelled exposures have to be recalculated using the standardised approach, e.g. there are differences in the application of conversion factors, and then the standardised credit risk methodology substituted where previously IRB credit risk weighting was used. This will result in a lack of comparability when banks attempt to show the cause of variances between modelled and non-modelled numbers.

Market risk

- The sum of RWAs for the internally modelled market risk portfolio, calculated on a standardised basis, and the existing standardised market risk portfolios RWAs would not be equal to the total RWAs as if its combined portfolios were calculated under the standardised approach as a whole. This is because the diversification effects between positions in both the modelled and standardised books would not be reflected. This would not only cause confusion for the user community but also result in industry analysts inflating their perception of banks' market risk RWAs by simply summing the parts.

Counterparty credit risk

- The disclosure of hypothetical RWAs for counterparty credit risk ('CCR') will also require a multi-step calculation. Firstly, CCR modelled exposures have to be recalculated using the standardised CCR methodology, and then the standardised credit risk methodology is applied where previously IRB credit risk weighting was used. This will result in a lack of comparability when banks attempt to show the cause of variances between modelled and non-modelled numbers.
- Additionally, when calculating exposure for netting sets (such as where eligible ISDA contracts are established with counterparties), if a bank is currently required to use both the internal model method and standardised methodologies on various transactions within a netting set, full netting would not be achievable. However, if all such netting set exposures are to be treated under the standardised approach, they would then be eligible for full regulatory netting. It appears that this would not be reflected in the proposed template, as the conversion from modelled to non-modelled RWAs is to be treated just for the modelled population when it should be done at the total level.

Securitisation

- Conversion to a standardised approach for securitisations under Basel's revised securitisation framework could result in a non-proportional 1,250% RWA applied to a significant population of exposures. For example, under the standardised approach of the revised securitisation framework, if the bank does not know the delinquency status of more than 5% of the underlying securitised exposures (which could be the case if the bank is an investor in the securitisation), then the penal 1,250% risk weight would be applied. This gives a distorted picture of banks' securitisation risk profile and would unnecessarily mislead users of the Pillar 3 report.

Recommended changes:

- For the reasons listed above, the disclosure of hypothetical RWAs based on standardised approaches should be removed. We suggest that, instead, the Committee focuses on designing a revised approach to capital requirements, both internally modelled and standardised, complemented by more rigorous and effective supervisory practices. This could be supplemented by additional comparative exercises provided to the regulator, such as hypothetical portfolio exercises or supervisory benchmarking based on valid external benchmarks. The use of a single portfolio across all banks would more meaningfully explain modelling discrepancies and hence RWA variations.
- We believe that the intention behind HYP1 and HYP2 should be reconsidered in conjunction with the Committee's ongoing work on a capital floor and its related disclosure requirements. The Committee has undertaken other considerable work in improving RWA comparability and the majority of these measures has not yet been implemented or their impacts understood. We therefore suggest the Committee waits until the industry fully implements these initiatives and then reassesses the degree to which the issue of RWA comparability has been addressed before proposing further disclosures.

Points where clarification is required:

- Please clarify what the Committee intends to achieve from this template. The instruction is for banks to re-perform the standardised calculation on the internally modelled portfolio and report in column 'b' to enable the comparison with column 'a'. However, for certain risk types, the sum of outputs from the hypothetical calculations on the internally modelled portfolio and standardised portfolios would not be the same as if applying standardised approach to the portfolio as a whole due to netting and diversification benefits. Therefore, this would not allow a user to compare different banks using this information.

Template HYP2 – Hypothetical RWA calculated according to the standardised approach for credit risk (excluding counterparty credit risk) at asset class level

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Not useful	Inappropriate	Semi-annual: Inappropriate	TBD

General comments:

- See our comments for HYP1.

Recommended changes:

- See our comments for HYP1.

Points where clarification is required:

- No additional comments.

Part 3 – Linkages between financial statements and regulatory exposures

Template PV1 – Prudential valuation adjustments

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Useful	Appropriate	Annual: Appropriate	End-2017: Inappropriate

General comments:

- System development would have to be undertaken to provide the additional granularity of the banking book / trading book analysis.

Recommended changes:

- To allow at least two years between the finalisation of the disclosure standard and implementation.

Points where clarification is required:

- None.

Part 4: Composition of capital

Template CC1 – Composition of regulatory capital (Non-G-SIBs only)

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Useful	Appropriate	Semi-annual: Appropriate	End-2017: Appropriate

General comments:

- We believe it is necessary to disclose capital and TLAC separately due to the differing scopes of application and the divergences in eligibility for TLAC and capital instruments. This is especially pertinent where a banking group contains more than one resolution entity/group. As such, CC1 should be disclosed on a group consolidated basis and TLAC1 on a resolution group basis.
- Specifically, there is an apparent disconnect between the ongoing supervisory approach, or going concern perspective, which necessitates a group consolidated approach, and the resolution approach, or gone concern perspective, which requires a resolution group approach. This means that whilst capital requirements continue to apply on a group consolidated basis, TLAC will not. Furthermore, there exist a number of technical differences between the two regimes which will need to be delineated clearly within disclosures e.g. capital issued externally from subsidiaries will continue to contribute to loss absorbing capacity for capital purposes but not for TLAC purposes. It is vital therefore, that such differences are fully reflected in disclosures.
- As noted in the main letter, the disclosure template should fully reflect final policy and this includes the rules for deduction of TLAC holdings (still to be finalised). In our view, as per our response to the Committee's consultation on this matter, TLAC deductions should be made on a corresponding or like for like basis, therefore TLAC holdings should only be deducted from Tier 2 to the extent that there are insufficient TLAC resources.
- Additionally, for MPE groups, given the distinct scopes of application of requirements between regulatory capital and TLAC, it is necessary to reflect on the application and interaction of TLAC deductions from a group regulatory consolidation perspective.

Recommended changes:

- As described above, CC1 should be disclosed on a consolidated basis for banks whose resolution strategy will involve more than one resolution group. TLAC1 should not be disclosed on a group consolidated basis, but only on a resolution group basis for TLAC elements only.
- In the event that the above recommendation is not accepted and G-SIBs are only required to disclose TLAC1, they should not be required to disclose CC1 in the interim period between end-2017 and 2019 (i.e. the period before TLAC1 comes into

effect. Instead, G-SIBs should be permitted to continue with existing capital disclosures (in the EU the capital template is prescribed by EBA requirements) rather than have to undertake changes for CC1 which would then be replaced by TLAC1 after 2 years.

Points where clarification is required:

- None.

Template CC2 – Reconciliation of regulatory capital to balance sheet

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Useful	Appropriate	Semi-annual: Appropriate	End-2017: Appropriate

General comments:

- Aligns to current disclosure – no additional comments.

Recommended changes:

- None.

Points where clarification is required:

- None.

Table CCA – Main features of regulatory capital instruments and of other TLAC instruments

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Useful	Inappropriate	Semi-annual: Inappropriate	End-2017: Appropriate

General comments:

- We understand that this disclosure is based on an existing regulatory capital instruments disclosure template which banks have already implemented. The original template was designed to demonstrate how individual instruments contribute to the capital base and how these absorb losses and comply with the regulatory capital eligibility criteria. The table has now been modified to extend to TLAC eligibility, however the approach taken of adding the two line items does not in our view clearly demonstrate how these instruments are counting towards meeting the TLAC requirements.
- We believe it would be necessary to create a separate section that clearly indicates whether the instrument counts towards meeting the TLAC requirement – given the different eligibility criteria for regulatory capital and TLAC – both on a full and transitional basis, and explains subordination. For example, information captured under Rows 4, 5, and 8 should similarly be relevant for TLAC-eligible instruments and should therefore be replicated under a TLAC eligibility section.
- As described above, the TLAC information should be made alongside the other TLAC disclosures at a resolution entity level. The table should therefore only apply in respect of externally issued instruments.
- We also recognise the importance of extending this disclosure to capture the TLAC eligibility perspective as this will be necessary for the purposes of an effective and fully functioning deductions regime for capital and TLAC. It is important that disclosure to facilitate identification of TLAC holdings is proportionate and not overly costly or cumbersome. In particular, we note that existing disclosures of features of eligible capital instruments are required on an annual basis (subject to materiality considerations), and we have no evidence to suggest this is demanded more frequently. It is therefore unclear as to why a disproportionate approach is being taken with respect to TLAC instruments to disclose whenever the issuer repays, issues or redeems instruments. The need for such comprehensive and detailed information on a frequent basis is unclear and in our view is unlikely to be demanded by external users beyond the regulatory community. We therefore strongly suggest that CCA is required only on an annual basis.
- We recognise that for deduction purposes, disclosures of TLAC eligible liabilities will be necessary. We therefore suggest that banks subject to TLAC requirements, disclose only high level information on TLAC eligible instruments, e.g. identifying code/ISIN, issuer name and value on a more frequent basis so as to allow correct identification of TLAC holdings for deduction purposes.

Recommended changes

- As set out above, we propose that TLAC eligibility information is separately and clearly captured within the table. This should clearly differentiate between instruments that are eligible for regulatory capital and for TLAC or both.
- The disclosure should be made at a resolution entity level rather than group consolidated level.
- CCA should only cover external TLAC instruments as issued by resolution entities. Disclosure of internal issuances is not useful or value added especially since losses are imposed on external investors at the level of resolution entity. Furthermore, internal issuances between group entities will likely mirror external issuances and therefore result in duplicative disclosures.
- Only high level information, e.g. list of eligible TLAC instruments including their value, should be published on a quarterly basis.
- The proposed frequency of disclosure is actually not clear given the instructions note that a bank's website should be updated 'whenever the bank repays, issues, redeems ... instruments...', but also note that disclosures are required 'semi-annual as a minimum'. Based on existing use and demand of similar disclosures of capital instruments, the full CCA template should only be disclosed on an annual basis.
- It is necessary to introduce materiality, therefore as is the case currently, the template instructions should make clear that where issuances are similar in nature, e.g. characteristics are the same, an aggregated disclosure should be permitted rather than requiring individual disclosure for each and every instrument.

Points where clarification is required:

- It is necessary to clarify that the disclosure is only in relation to externally issued instruments that are eligible for regulatory capital and TLAC purposes. This should not apply to all senior debt that could potentially be used to meet TLAC requirements as permitted in the FSB Term Sheet subject to the 2.5 - 3.5% allowance.

Template TLAC1 – Capital and TLAC composition for G-SIBs

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Not useful	Inappropriate	Semi-annual: Appropriate	End-2019: Appropriate

General comments:

- The TLAC disclosures will need to take into account local implementation of the rules and individual banks resolution strategies. These fundamental areas are currently under development and therefore it is premature to settle on final and harmonised disclosure templates. Given disclosures will need to be tailored to the resolution strategies of particular banking groups, they should not be prescriptive.
- It is vital that TLAC disclosures reflect TLAC requirements. In particular for a MPE bank, a group consolidated disclosure is not meaningful and, more importantly, is misleading. A group consolidated view would not be consistent with the approach to resolution given the FSB TLAC principles do not impose requirements on a group consolidated basis.

In any event, it is unclear whether such group disclosure is intended to be a simple aggregation of TLAC resources and RWAs across all resolution groups which would not be meaningful given RWAs and TLAC resources will be based on local rules for each resolution group. If, on the other hand, this is intended to be a ‘group consolidated’ view based on group applicable rules, so as to provide an indication of the difference between SPE/MPE (i.e. the TLAC Term Sheet adjustment for MPE banks), such a disclosure would also be misleading. In particular, it would misrepresent the amount of loss absorbing capacity in the group and would not take into account allocation of resources across resolution groups and entities (some of which may not necessarily need TLAC).

- Regulatory capital requirements, on the other hand, are applied on a group consolidated basis. It is therefore necessary to understand how disclosures for capital and TLAC will accommodate for this difference in the requirements. As set out in our earlier comments, we propose that template CC1 is required to be disclosed by banks subject to a MPE resolution strategy, and TLAC is separately disclosed on the basis of resolution groups only. As a result capital disclosures in template CC1 would be completely separated from TLAC specific disclosures in TLAC1.
- We note the proposed disclosure assumes deductions of TLAC holdings should be made from Tier 2. This has not yet been finalised and its consultation has prompted widespread industry objection. Any disclosures of TLAC should reflect the final policy for TLAC holdings. Furthermore, given the differences in scope of application of requirements, (regulatory capital on a consolidated basis vs TLAC on a resolution entity basis), it will be necessary to reflect on appropriateness of any deduction for holdings of TLAC instruments from a group regulatory consolidation perspective.
- Additionally, the regulatory treatment in respect of deductions of holdings between resolution groups should be subject to Crisis Management Group (‘CMG’) agreement

as specified in the TLAC Term Sheet, especially since this was not included within the scope of the Committees consultation on TLAC holdings.

- As noted earlier in our comments, in the absence of a materiality threshold for disclosures, there is a risk that a large volume of detailed information will obscure what is useful and impede users' ability to understand it correctly, especially since resolution groups and TLAC concepts are new in the regulatory framework.
- At the very least, given the potential national implementation divergences over key principles (e.g. approach to internal vs external TLAC, subordination requirements, eligibility criteria etc), and to accommodate banks' individual resolution strategies, if TLAC1 is introduced, it should be a flexible format and not fixed as proposed.

Recommended changes:

- TLAC1 should only be required on a resolution group basis and not group consolidated basis. TLAC1 should include only disclosure of TLAC and should be kept separate from capital disclosures which should be disclosed on a consolidated basis in CC1.
- TLAC1 should be a flexible template with the ability for banks to adjust and delete as appropriate to accommodate for specificities in individual resolution strategies.
- TLAC requirements will be based on locally applicable requirements for each resolution group, in accordance with national implementation of TLAC requirements, and national implementation of Basel 3 capital requirements. It is therefore necessary to ensure that TLAC1 has rows to accommodate for this.

For example, there should be additional rows in respect of capital buffers which are applicable to individual resolution groups. The template in its current form recognises that group applicable buffers will not apply where there is more than one resolution group within a banking group since rows 64 to 68 are not applicable to MPE banks. However, it is necessary that within the section for 'national requirements', i.e. rows 69 to 71, additional rows are added for locally applicable buffers which apply to individual resolution groups.

- Deductions of TLAC holdings, as disclosed in rows 52 to 55, should be amended to reflect the finalised requirements rather than assumed to be deducted from Tier 2.
- Where deductions are required for holdings of TLAC instruments issued by another resolution group in the same G-SIB, disclosures of this should be from the perspective of the investor only.

Specifically, it is unclear why there are requirements to disclose deductions at both the 'investor level' in row 59n and 'issuer level' in row 59o. Deductions are expected to apply at the level of the investor, i.e. deductions of holdings that the resolution entity (or any other entity in the resolution group) has in respect of TLAC issued by other parties outside the resolution group. It is unclear why the resolution entity would have the information/be required to disclose information in respect of deductions made by others who hold TLAC it has issued. It is assumed that such deductions would be captured in the TLAC holder's own disclosures, i.e. in the disclosure template made by the other resolution entities. We understand that reference is made

to section 3 of the FSB Term Sheet but this is an area that requires clarification and is subject to implementation by resolution authorities.

- We agree that column 'b' should not be required for individual resolution groups within a G-SIB subject to a MPE resolution strategy. As above, our view is that TLAC1 should not be required on a consolidated basis; therefore a reconciliation to group regulatory consolidation is not appropriate either. Template CC1 should be used instead and reconciled to the regulatory balance sheet.
- The template should include a row to explicitly exclude RWAs of entities which are not subject to TLAC requirements. As noted earlier in this response, not all entities within the regulatory consolidation (currently subject to capital requirements) will be subject to TLAC requirements. This could include entities which are non-financial/non-systemic, which will not need to be bailed in and will therefore not need TLAC beyond existing regulatory capital resources. This applies to both MPE and SPE banks.
- Rows 59g, 59h, 59j, and 59n should be amended to be clear that these rows refer to TLAC issued outside the resolution group, including where a resolution entity has issued TLAC to another resolution entity within the same G-SIB. As set out in the FSB Term Sheet section 9(f), TLAC may be funded by a related part of the resolution entity under MPE subject to agreement by the CMG. This appears to be recognised in row 59n, which refers to 'external TLAC issued by the resolution group that is held by other resolution groups in the same G-SIB'. The template should be made clearer by requiring disclosures of any TLAC liabilities which are issued to meet the requirements of the resolution group irrespective of whether issued to another entity within the G-SIB banking group or to external investors.
- Rows 59g and 59h use the terminology "...issued directly by the bank..." this could potentially be restrictive as the resolution group is likely to be headed by an intermediate holding company rather than a bank. These should be amended to refer to a resolution entity more generically.
- The frequency of disclosures for resolution groups that are deemed immaterial, e.g. where they constitute <5% of group RWAs should be amended and be required on an annual basis only.

Points where clarification is required:

- As noted earlier, if TLAC1 is required on a consolidated basis, it is unclear what this means for a MPE group which has more than one resolution group. Does this require an aggregation of locally applicable requirements or does this require a calculation of TLAC requirements on a group consolidated basis using group applicable requirements? Such clarity is vital for investors to understand and interpret how a consolidated disclosure interacts with the application of TLAC requirements on an individual resolution group entity basis.
- The notes below the table make reference to national implementation of capital deductions for the purposes of disclosing row 59 'Total regulatory capital' for banks subject to MPE strategy. It is unclear what is meant by (i) net of investments in the

regulatory capital of subsidiary resolution groups and (ii) gross, in which case the investments will need to be deducted at the total TLAC level, i.e. row 59m.

TLAC requirements as set out in the FSB Term Sheet should not impact the existing regime for regulatory capital deductions, nor are regulatory capital deductions between entities in the same group included in the scope of Basel 3 or covered in the proposed treatment for TLAC holdings that was consulted on. It is vital that disclosures accurately reflect final regulatory requirements as published. Furthermore, if a differing approach is taken with respect to disclosures of capital deductions, this undermines and does not reconcile with the instruction for ‘common templates to remain comparable between banks’ and to have ‘no adjustments to the version banks use to disclose their regulatory capital position’.

- It is unclear what the rationale for rows 59n and 59o is, given TLAC issued by the resolution group which is held by other resolution groups will be disclosed elsewhere.
- It is unclear why row 64 ‘institution specific buffer requirement’ includes minimum CET1 requirements of 4.5%. This is not a buffer requirement but a hard minimum.

Template TLAC2 – Material subgroup entity – creditor ranking at legal entity level

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Not useful	Inappropriate	Semi-annual: Inappropriate	End-2019: Appropriate

General comments:

- Given creditor hierarchy will depend upon national insolvency law and TLAC loss absorption will depend upon national implementation of TLAC requirements and national powers in respect of bail-in, it is unclear why comparable and harmonised disclosures are required.
- We question the value of TLAC2 given losses are not intended to be imposed on external investors/creditors at the level of material entities within the group. Whilst the material entity will clearly have external creditors in the form of normal operating liabilities, the intention of the TLAC regime, through the introduction of resolution entities, is to avoid bail-in occurring at the level of a material entity. Therefore we do not agree that disclosure of internal TLAC is necessary.
- If however TLAC2 is introduced, it is vital that the disclosure is proportionate and useful to investors. In particular, there should not be a disclosure of every individual liability but disclosure should be split into creditor classes, to give investors a clear understanding of TLAC ‘eligible liabilities’ as defined in the Term Sheet, and other operating liabilities. Specifically, the material entity is likely to be an operating bank and will therefore have a significant amount of operating liabilities which do not meet the eligibility criteria and/or are not within scope of the bail-in tool, and should therefore not need to be disclosed.

Recommended changes:

- ‘Classes of securities’ should be disclosed rather than a disclosure of all individual liabilities. We propose that ‘classes of securities’ are: a) CET1; b) AT1; c) T2; d) Subordinated (non-regulatory capital); e) Senior (which meet TLAC eligibility criteria except subordination); and f) All other liabilities which do not necessarily meet TLAC criteria but do fall within the scope of national bail-in powers. These classes of securities could be further separated into remaining maturity of greater than 12 months and remaining maturity of less than 12 months.
- Where remaining maturity is greater than 12 months, this should not be required to be disclosed with further granularity, i.e. 1 to 2 years, 2 to 5 years etc, as there are no further TLAC requirements in respect of maturity profile of eligible liabilities.
- The instructions should clearly state that liabilities which are excluded from national bail-in powers should not need to be disclosed, e.g. preferred deposits, secured liabilities etc. Therefore, templates should allow full qualitative information as to the nature of the local solvency and resolution regime to which the resolution entity is subject in order to contextualise this.

- We note that carrying values are to be disclosed in this template, however given this is intended to provide information to investors on the full extent of losses that could be imposed upon them, we suggest that nominal amounts should be disclosed instead.

Points where clarification is required:

- As noted in the TLAC Term Sheet section 19, internal TLAC may be in the form of collateralised guarantees (subject to specific criteria being met and as agreed by the CMG). In this case, the use of a guarantee would not appear within the creditor hierarchy of the material entity, and as such, it is unclear how this internally available loss absorbing capacity would be represented and disclosed to investors.
- It is also unclear what is meant by ‘liabilities net of credit risk mitigation’ in row 3. It is assumed that this relates to liabilities such as derivatives where the institution has the rights to set off or net under contractual arrangements, and therefore only the ‘net’ value of the liability is available to absorb losses.
- Further, clarity is needed on whether TLAC2 and TLAC3 are intended to capture instruments which are eligible for TLAC or those which could be bailed in (i.e. liabilities which rank pari-passu with TLAC/excluded liabilities, e.g. senior unsecured liabilities, non-preferred deposits etc. This should only apply to eligible liabilities or those which can be subject to bail-in. Liabilities which fall outside national bail-in powers, e.g. secured liabilities, do not need to be disclosed. Creditor ranking should set out clearly the difference between liabilities that constitute: a) Regulatory capital; b) Liabilities which meet TLAC eligibility criteria; and c) Liabilities which do not meet TLAC eligibility but do fall within scope of national bail-in powers. Specifically, language relating to ‘potentially eligible as TLAC’ is unclear and confusing.
- Liabilities which are perpetual are assumed to be reported in row 10, i.e. remaining maturity of greater than 10 years.

Template TLAC3 – Resolution entity – creditor ranking at legal entity level

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Not useful	Inappropriate	Semi-annual: Inappropriate	End-2019: Appropriate

General comments:

- Given creditor hierarchy will depend upon national insolvency law and TLAC loss absorption will depend upon national implementation of TLAC requirements and national powers in respect of bail-in, it is unclear why comparable and harmonised disclosures are required.
- If however, it is introduced, it is important that users of the disclosure clearly understand the national solvency regimes and national bail-in powers – this should be clearly identified in the template via qualitative information. In particular, investors should be aware and fully understand which liabilities are being used to meet the resolution entities' TLAC requirement and which liabilities, despite not being eligible for TLAC, could still be bailed in, given they fall within the scope of the national bail-in powers. This information is important for users to make comparisons between the liabilities they invest in, which have been issued by different resolution entities (whether in the same G-SIB or not) and appear to be differing in subordination but in practice are both TLAC eligible due to the national law in place. For example, senior debt may be seen as more attractive than subordinated debt, but both could be subject to the same losses if the senior debt is issued in a jurisdiction which has statutorily subordinated all senior unsecured liabilities.
- As set out earlier, disclosures should also take into account proportionality and materiality, therefore disclosures should only be made on a semi-annual basis for resolution groups that constitute >5% of group consolidated RWAs. All other immaterial resolution groups should only be subject to disclosure requirements on an annual basis.

Recommended changes:

- 'Classes of securities' should be disclosed rather than a disclosure of all individual liabilities. We propose that 'classes of securities' are: a) CET1; b) AT1; c) T2; d) Subordinated (non-regulatory capital); e) Senior (which meet TLAC eligibility criteria except subordination); and f) All other liabilities which do not necessarily meet TLAC criteria but do fall within the scope of national bail-in powers. These classes of securities could be further separated into remaining maturity of greater than 12 months and remaining maturity of less than 12 months.
- Where remaining maturity is greater than 12 months, this should not be required to be disclosed with further granularity, i.e. 1 to 2 years, 2 to 5 years etc, as there are no further TLAC requirements in respect of maturity profile of eligible liabilities.
- The instructions should clearly state that liabilities which are excluded from national bail-in powers should not need to be disclosed, e.g. preferred deposits, secured liabilities etc. Therefore, templates should allow full qualitative information as to the nature of the local

solvency and resolution regime to which the resolution entity is subject in order to contextualise this.

- We note that carrying values are to be disclosed in this template, however given this is intended to provide information to investors on the full extent of losses that could be imposed upon them, we suggest that nominal amounts should be disclosed instead.

Points where clarification is required:

- It is unclear what is meant by ‘liabilities net of credit risk mitigation’ in row 2. It is assumed that this relates to liabilities such as derivatives where the institution has the rights to set off or net under contractual arrangements, and therefore only the ‘net’ value of the liability is available to absorb losses.
- It is unclear whether TLAC2 and TLAC3 are intended to capture instruments which are eligible for TLAC or those which could be bailed in (i.e. liabilities which rank pari-passu with TLAC/excluded liabilities, e.g. senior unsecured liabilities, non-preferred deposits etc).

This disclosure should only apply to eligible liabilities or those which can be subject to bail-in. Liabilities which fall outside national bail-in powers, e.g. secured liabilities do not need to be disclosed. Creditor ranking should set out clearly the difference between liabilities that constitute: a) Regulatory capital; b) Liabilities which meet TLAC eligibility criteria; and c) Liabilities which do not meet TLAC eligibility but do fall within scope of national bail-in powers. Specifically, language relating to ‘potentially eligible as TLAC’ is unclear.

- Liabilities which are perpetual are assumed to be reported in row 10, i.e. remaining maturity of greater than 10 years.
- Does row 4 ‘Total capital and liabilities less excluded liabilities’ need to agree with the total TLAC reported in other templates (such as TLAC1 row 59)?

Specific comments on the issues raised in Section 2.1 (i) and (ii) of the consultation

In addition to our key comments as set out in the main letter, we note that the Committee asked for feedback in relation to specific points around TLAC disclosures in section 2.1 of the consultation. Our response is set out below but should be read in conjunction with our comments in the letter and comments on TLAC specific templates in this appendix.

(i) *Calculation and reporting of the deductions of a parent resolution group's investment in regulatory capital instruments issued by its subsidiary resolution groups*

In terms of the Committee's specific question on the disclosure of TLAC holdings between resolution groups in the same G-SIB, we are concerned that the Committee is putting forward proposals on specific TLAC disclosures before the regulatory framework is finalised. In this respect, we would note that a policy regarding deductions of TLAC holdings between resolution groups was not included in the Committee's consultation on TLAC holdings issued in November 2015.

The FSB Term Sheet recognises the possibility of deductions between resolution groups in the same banking group but specifically notes that this is a requirement to be agreed in the G-SIB's CMG. As such, it is unclear why the Committee is inviting views on disclosure of a policy area which has not yet been consulted upon and where we are currently unaware of any formal/harmonised requirements. It is therefore important to understand what the underlying requirements will be with respect to intra-group deductions of TLAC holdings between resolution groups in the same banking group before we are able to provide any views on the disclosure of such requirements.

As noted in our response to the Committees' consultation on TLAC holdings, any deductions of TLAC holdings on other G-SIBs TLAC instruments should be made on a corresponding or like for like basis, from TLAC resources and not from Tier 2. It is also necessary to introduce a market making exemption and utilise two thresholds for deductions so as to ensure sufficient market capacity and liquidity. It is vital that the final agreed policy and requirements in relation to holdings are reflected in any disclosure requirements relating to TLAC positions. Subject to CMG discussions, if a deductions regime is introduced for TLAC holdings between resolution groups within the same G-SIB, this should also be on a corresponding or like for like basis.

Given these key areas of policy are yet to be determined, consultation on disclosures at this juncture is inappropriate.

(ii) *Whether a G-SIB resolution group should disclose both the pre- and post-adjustment amounts (in TLAC1) in relation to (a) deduction of TLAC issued by other resolution groups within the same G-SIB(i.e. rows 59l and 59m) and issued by the resolution group (i.e. rows 59n and 59o;) and (b) its total RWA (rows 59r and 59s).*

Subject to CMG discussions, if a deductions regime is introduced for TLAC holdings between resolution groups within the same G-SIB, this should be on a corresponding or like for like basis with deductions made from TLAC rather than Tier 2. Disclosures should be consistent with existing capital disclosures, with both pre and post-deduction TLAC amounts disclosed.

With respect to disclosures of a G-SIB resolution group's RWAs, it is necessary that disclosures correctly reflect the underlying policy approach for TLAC and its national implementation. Therefore, RWAs for a resolution group should be calculated and disclosed

based on locally applicable requirements and not on group requirements. If this is adjusted in accordance with Section 3 of the FSB Term Sheet, whereby the CMG decides to adjust MPE requirements, it will be necessary to disclose the post-adjusted RWAs. We would therefore propose that RWAs are disclosed on both a pre and post-adjusted basis, and where an adjustment exists, it will be necessary to provide an explanation as to the rationale for such an adjustment. As such, it is premature to comment on the adequacy and exact disclosure without any details of national implementation of the TLAC Term Sheet.

Furthermore, it is also important to note that this ‘adjustment’ disclosure is not necessarily tied directly to SPE vs MPE, but may also be relevant where the TLAC requirements are only applicable to the entities within a banking group/resolution group which are likely to be bailed in. Specifically, not all entities within a G-SIB will need to be resolved via bail-in and will therefore not need TLAC resources above existing regulatory capital resources, e.g. non-banking or non-systemic entities which can be resolved through other resolution tools or normal insolvency. As a result, the RWAs attracting capital requirements on a going concern basis will not necessarily attract TLAC requirements for resolution purposes. It will be necessary for such differences in RWAs to be reflected in disclosures.

Separately, given disclosures should be limited to resolution groups, it will also be necessary for TLAC1 to include rows to disclose capital buffers that are applicable to resolution groups, given group applicable buffers (e.g. G-SIB buffer) would not apply to individual resolution groups.

As noted in the main letter, our overarching concern is that it is too early to introduce a uniform set of detailed disclosure templates for TLAC (with the exception of CCA).

Part 5: Macroprudential supervisory measures

Template GSIB1 – Disclosure of G-SIB indicators (simple consolidation without change)

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Not useful	Appropriate	Annual: Inappropriate	End-2017: Inappropriate

General comments:

- We question the use of this disclosure in the Pillar 3 document as this is already published as a market disclosure.
- The consultation states that banks are required to disclose the template on their website within four months of their financial year end, but the template must also be included in the bank's financial year-end Pillar 3 report.
- Our understanding is that the G-SIB summary information required to be presented in the year-end Pillar 3 document will be that from the previous year end.
- This suggests that banks will be replicating information in the Pillar 3 document which could been available on their website for approximately 10 months, and consequently, there is a risk of misleading users with the perception that the Pillar 3 disclosure is more relevant or recent.

Recommended changes:

- We suggest allowing signposting of this disclosure in the Pillar 3 document to avoid duplicating disclosures.

Points where clarification is required:

- Our interpretation of the requirements, as detailed above, results in G-SIBs information from one year end being disclosed in the following year's Pillar 3 document as a result of that being the first year-end Pillar 3 following disclosure on the website. Confirmation is required that this was the intention and not the acceleration of disclosures into the current year-end Pillar 3 document. We believe that signposting from the Pillar 3 document to the website would be the best method of disclosure.

Template CCyB1 – Geographical distribution of credit exposures used in the countercyclical buffer

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Useful	Appropriate	Semi-annual: Inappropriate	End-2017: Inappropriate

General comments:

- It is unlikely that the CCyB measure will be prone to significant fluctuation, therefore a semi-annual disclosure is unnecessary.

Recommended changes:

- A detailed annual disclosure and an institution specific buffer amount disclosure on a quarterly basis in KM1 with an explanation of significant movements should provide all required information.
- We suggest name changes to the following reporting fields in the template in order to provide more clarity:
 - ‘Sum’ should be ‘Sum of countries with a CCyB rate greater than zero’.
 - ‘Total’ should be ‘Total of private sector’.
- Allow at least two years between the finalisation of the disclosure standard and implementation.

Points where clarification is required:

- Confirm that market risk should be included in the template with nil value for exposures.

Part 6: Leverage ratio

Template LR1 – Summary comparison of accounting assets vs leverage ratio exposure measure (simple consolidation without change)

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Useful	Appropriate	Quarterly: Inappropriate	End-2017: Appropriate

General comments:

- We note that the Committee is not seeking comments on leverage ratio templates in this consultation and that it is currently consulting on proposed revisions to the Basel 3 leverage ratio framework, however, we note that the required frequency of publication has changed in this consultation.
- It is unlikely that the leverage ratio will be a measure prone to significant fluctuation. Therefore, a semi-annual disclosure of the templates and a high level leverage ratio disclosure quarterly with an explanation of significant movements should provide all required information.

Recommended changes:

- The template should be disclosed on a semi-annual basis.
- On a quarterly basis, include a limited disclosure incorporating the exposure measure, Tier 1 capital amount and the resulting leverage ratio, as disclosed in KM1.

Points where clarification is required:

- None.

Template LR2 – Leverage ratio common disclosure template (simple consolidation without change)

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Useful	Appropriate	Quarterly: Inappropriate	End-2017: Appropriate

General comments:

- See LR1.

Recommended changes:

- See LR1.

Points where clarification is required:

- None.

Table LIQA – Liquidity risk management (simple consolidation without change)

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Useful	Appropriate	Annual: Appropriate	End-2017: Appropriate

General comments:

- While we understand that the Committee is not seeking comments on liquidity templates in this consultation, we appreciate the clear intention to keep disclosures relevant and current. In this respect, we consider there is merit in revisiting the disclosures for liquidity and request the Committee to review these.
- The qualitative disclosures should provide valuable insights to investors.
- The quantitative disclosures may be more cumbersome. For example, a global bank's disclosure outlining liquidity and funding needs at the individual legal entity level may be comprised of 70 different submissions. This will therefore be a significant increase in the volume of information provided.

Recommended changes:

- The quantitative section of the requirements should be in a specific, standard template – to aid consistency and comparability across banking entities.

Points where clarification is required:

- None.

Template LIQ1 – Liquidity Coverage Ratio (simple consolidation without change)

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Not useful	Inappropriate	Quarterly: Inappropriate	End-2017: Appropriate

General comments:

- While we understand that the Committee is not seeking comments on liquidity templates in this consultation, we appreciate the clear intention to keep disclosures relevant and current. In this respect, we consider there is merit in revisiting the disclosures for liquidity and request the Committee to review these.
- We question the usefulness of this disclosure because we feel that it fundamentally changes the interpretation of the Liquidity Coverage Ratio (LCR) metric. LCR is set out to be a forward-looking ratio, which estimates how inflows and outflows would behave relative to liquid assets in a fast moving 30-day stress. The metric outlined in this template appears to be a historical average of inflows, outflows, and liquid assets, not forward-looking and it does not give any indication how a bank's liquidity outlook may evolve in a future 30-day stress scenario.
- We currently manage our LCR through the preparation and then semi-annual and annual external publication of period end LCR balances under the EU Delegated Act basis.
- Further, we also have clear guidelines from the PRA as to the scope of which entities to include within our proposed daily reporting process, and we need to ensure that we do not deviate from this regulatory-defined boundary.

Recommended changes:

- The requirements for historical daily averages should be removed, in favour of period end balances, which is a more useful metric.

Points where clarification is required:

- None.

Template LIQ2 – Net Stable Funding Ratio (simple consolidation without change)

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Not useful	Inappropriate	Semi-annual: Appropriate	1 Jan 2018: Appropriate

General comments:

- While we understand that the Committee is not seeking comments on liquidity templates in this consultation, we appreciate the clear intention to keep disclosures relevant and current. In this respect, we consider there is merit in revisiting the disclosures for liquidity and request the Committee to review these.
- We note that the LCR portion of the template requires averages, whereas the net stable funding ratio ('NSFR') section requires spot balances only. This will break the implicit connection and reconciliation that exists between LCR and NSFR, which is an important tool that analysts may use to understand our liquidity and funding risk.

Recommended changes:

- None.

Points where clarification is required:

- None.



Part 8: Credit risk

January 2015 Revised Pillar 3 disclosure requirements (phase 1) apply

Part 9: Counterparty credit risk

January 2015 Revised Pillar 3 disclosure requirements (phase 1) apply

Part 10: Securitisation

January 2015 Revised Pillar 3 disclosure requirements (phase 1) apply

Part 11: Market risk

General comments

- We note that Part 11: Market risk has fundamentally changed from the templates published in the revised Pillar 3 disclosure requirements issued in January 2015.
- The requirements from Phase 2 of the Pillar 3 review take into account new themes, in particular the framework from the Fundamental Review of the Trading Book ('FRTB') and include for example, expected shortfall effectively replacing VaR and SVaR as an internal model risk measure.
- The implementation timeline of these requirements is dependent on any further reviews and changes to FRTB, and the precise local implementation of FRTB.
- We question the usefulness and meaningfulness of the granular information required here and we believe that it is substantively proprietary. Particularly, the desk structure, composition and aggregate RWAs per desk (which is non-additive) will be unique to each bank. It may well impact the likelihood of internal model approach ('IMA') acceptability and therefore pricing. Further, if a bank were not permitted to have an IMA permission for a desk, if say it had failed back-testing or P&L attribution, disclosure of this may well lead to regulatory arbitrage and this is made more likely by the proposed qualitative disclosures.
- Banks have different trading strategies and desk structures so the disclosure of the composition and RWAs will not assure or even assist in the assessment of comparability.
- Our view of the fundamental changes to this section is that while they may be beneficial to the policy makers and regulators, they are not of use to the investor community. We believe more questions and confusion could result from these proposed detailed disclosure requirements. For example, if a bank had 90 desks with an average of 5 risk factors, then consideration has to be given to the volume of disclosures that would be produced. However, we would support regulatory reporting to the supervisor.
- The templates will result in the disclosure of the IMA 60-day average multiplier, particularly in MR3 where its value could be derived. Whilst increases in the multiplier are, in part, driven by back-testing exceptions, there is also a level of discretion in setting this multiplier based upon supervisory review of the risk management of the bank. Given the supervisory discretion in setting this multiplier, we do not consider its disclosure to be appropriate.

Table MRA – General qualitative disclosure requirements related to market risk

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Not useful	Inappropriate	Annual: Appropriate	End-2019: Appropriate

General comments:

- The requirement to disclose details of banks' desk structures constitutes proprietary information. The granularity of the information includes an exhaustive list of a bank's trading desks, the types of instruments traded at these desks, as well as the main risk types for certain desks subject to individual disclosure.
- Given the distinctive nature of banks' business models, there is little benefit in disclosing such information for the user community as it lacks both comparability and simplicity. It is unclear how this information would be efficiently used to aid understanding of banks' risk management practices.
- In addition, for advanced banks, the desk level disclosure in MRA is largely repetitive with table MRC.

Recommended changes:

- Simplify the table by removing requirements to disclose the detailed desk structure, instruments traded and risks faced by the desks. Restrict desk related disclosures to general description of banks' trading business activities and only high-level information of desk categories under IMA and the standardised approach respectively.

Points where clarification is required:

- Confirm that the desk definition is fully aligned with how it is defined in the Trading Desks Definition in the FRTB Standards (Appendix A), published in January 2016.

Template MR1 – Market risk under SA

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Useful	Appropriate	Semi-annual: Appropriate	End-2019: Appropriate

General comments:

- This template requires accompanying narrative relating to items that are booked in the trading or banking books that do not conform to the general presumptions on the instrument category. It also requires information regarding movements between the trading book and banking book.

Recommended changes:

- None.

Points where clarification is required:

- Clarify why the disclosure of the interaction between the banking and trading books is required only for the standardised market risk portfolio.

Table MRB – Qualitative disclosures for banks using the IMA

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Not useful	Inappropriate	Annual: Appropriate	End-2019: Appropriate

General comments:

- The detailed disclosure requirements appear to be more regulatory focused and better suited in the hands of the regulator, rather than providing clarity to the user community. As such, we question whether it is suitable material for the Pillar 3 document.
- In any case, market risk internal models are subject to rigorous review and approval processes undertaken by supervisory authorities. The level of scrutiny has been reinforced over the past years.
- It is unclear how the proposed disclosure items are relevant for the investors and/or analysts. Our concern is that too granular and technical information will be published to an audience group who have limited understanding of the regulatory policy frameworks. This could cause confusion instead of providing more insight into banks' businesses.
- Model choices and characteristics across banks will be different and therefore we question the usefulness of disclosing this detailed information and remain doubtful on the level of comparability this would achieve.
- Collectively, tables MRB and MRA will lead to a substantial increase in the length of the market risk disclosures. We question whether this additional information will provide the investor and analyst community with an improved understanding of the business as the focus is of a regulatory nature.

Recommended changes:

- Simplify the disclosure requirement and limit this table to a general discussion of modelling choices and the related governance processes.

Points where clarification is required:

- None.

Table MRC – The structure of desks for banks using the IMA

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Not useful	Inappropriate	Semi Annual: Appropriate	End-2019: Appropriate

General comments:

- Similar to our comments for table MRA, we do not support the disclosure of market risk measures at the desk level.
- The disclosure of desk level information, including instruments traded and risk types, results in banks publishing proprietary information.
- The desk structures used by different banks would not be directly comparable due to their distinctive business models. Hence, such disclosure requirements would be of little benefit for users given the lack of comparability.
- Table MRA effectively requires a similar level of disclosure, albeit qualitative, thus resulting in unnecessary and repetitive content in the Pillar 3 document.

Recommended changes:

- Instead of requiring detailed desk structure disclosure, alternatively a more general discussion of the bank's trading desk structure could be included, providing distinctions between the different asset classes in the bank's portfolio.

Points where clarification is required:

- Confirm whether all risk or product types must be identified in the table per desk (as indicated in the 'Content' row) or whether it is just the main risk types or product as indicated in the tables. If the latter, a metric for determining main risk types or product is required.
- Confirm whether MRC calls for an exhaustive list of trading desks under IMA.
- Clarify what the Committee's expectation is for those desks to be included in the 'Desks disclosed collectively (number of desks grouped within a category)' row of the table. Will this constitute all of the IMA desks that are not included as separate line items in rows 'Desk 1' to 'Desk x'?

Template MR2 – Market risk IMA per desk

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Not useful	Inappropriate	Semi Annual: Appropriate	End-2019: Appropriate

General comments:

- Similar to our comments for table MRA, we do not support the disclosure of market risk measures at the desk level as such detailed information (e.g. number of back-testing exceptions and number of P&L attribution breaches) is unlikely to provide further clarity to users and would be better utilised by supervisory authorities.
- We interpret the intention for this template is to show the volatility of the components of the capital charge under the IMA, while showing how these components contribute to the overall capital charge under the IMA at a desk level. However, these two aims are difficult to address in a single template due to the impacts of firstly, diversification across desks and secondly, the relatively complex calculation steps in deriving the final IMA capital requirements.
- The purpose of MR2 is to disclose information at the main desk level, which is reinforced by MRA. However, it includes a requirement to disclose the simple sum of other desks in line X of the table.
- Despite the finalisation of the FRTB, there are still significant open questions yet to be resolved, e.g. P&L attribution.
- There are several aspects of the construction of the table which appear flawed and would result in an inappropriate view of the level of market risk in this context, as follows:
 - In MR2, the values required for columns ‘a’ to ‘l’ are not necessarily the inputs used to calculate column ‘m’: ‘Aggregate capital charge for desks eligible to IMA’. There are additional calculation steps to derive values in column ‘m’ which are not shown on this template, including comparing the average value to the most recent value, joint calculation of internally modelled capital charge (‘IMCC’) and stressed capital add-on (‘SES’) and the use of the multiplier. The inclusion of column ‘m’ risks confusion for the non-specialist user community.
 - Column ‘m’ as presented implies capital charges for desks are additive. However, capital charge per desk is non-additive and would not reflect the same hedging and diversification at the desk level as exists at the whole IMA portfolio level. Furthermore, this view is compounded by the inclusion of a total value required in row 1 of the table, suggesting that the below rows consists of individual desk’s contribution to this total. This would create confusion for the users.

Recommended changes:

- Replace the detailed desk level view by asset class level view.
- Remove column ‘m’ and row 1 of the table.

Points where clarification is required:

- Please clarify whether this disclosure applies to all IMA desks, whether individually or collectively, or just the ‘main desks’.
- Please clarify how to treat scenarios where desks fall in and out of IMA.
- For columns ‘b’, ‘f’ and ‘j’, which require the mean value of various risk measures, we have assumed that this is 60 business days used in the market risk capital charge calculation, rather than the semi-annual period of the disclosure.
- Please confirm that the definition of ‘Expected shortfall values’ in columns ‘a’ to ‘d’ refers to the risk measure defined in paragraph 181 (c) of FRTB.
- Please clarify whether to report the sum of constrained and unconstrained expected shortfall charge in columns ‘a’ to ‘d’ or just the constrained expected shortfall charge.

Template MR3 – Market risk IMA per risk type

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Useful	Inappropriate	Semi-annual: Appropriate	End-2019: Appropriate

General comments:

- We support the disclosure of market risk measures and capital requirements by the components of the IMA calculation. This table provides a more meaningful and logical view of banks' market risk. However, the detailed design of the table does not reconcile with the bank's reported market risk capital charge.
- There are three drivers of IMA capital charge: IMCC, SES and default risk charge ('DRC'). The former two risk measures are subject to a joint spot vs 60-day averaging calculation. The design of the table (specifically rows 10 and 11) forces the most recent measures and average risk measures to be added together respectively and the total capital charge to be implied by the higher of the two. This does not necessarily enable the actual capital charge to be calculated. There might be cases where the most recent measure for DRC is used (as it is higher than the average DRC measure, defined in paragraph 186 (d)) but for the joint calculation of IMCC and SES the average measure is used (as it is higher than the most recent measure, defined in paragraph 181 (j)). The current design of this table does not take into account this eventuality.
- This template will result in the disclosure of the IMA 60-day average multiplier. Whilst increases in the multiplier are, in part, driven by back-testing exceptions, there is also a level of discretion in setting this multiplier based upon supervisory review of the risk management of the bank. Given the supervisory discretion in the multiplier, we do not consider its disclosure to be appropriate.

Recommended changes:

- Consider combining MR3 and MR1, therefore displaying the full picture of banks' market risk capital requirements and simplify the lens to capital charge components split on standardised and IMA views.
- Delete row 10.
- Introduce an additional row for the joint calculation of IMCC and SES.
- Introduce two additional rows to reflect the steps required and the values used in deriving the final market risk charge, i.e. for C_A and DRC defined in paragraph 194 of the final FRTB standards.
- Instead of having columns 'a' and 'b', put in one single column to disclose only the risk measures used to sum up to the IMA capital requirements, i.e. not showing whether the most recent measure or the average value is used in the calculation. In this way, the disclosure of multiplier could be avoided.

Points where clarification is required:

- Clarify the benefit of having different metrics for expected shortfall namely rows 1, 2-6, 7 as opposed to one each for the other capital charges (namely one each for SES, DRC).
- Clarify the dis-connect between the description for row 7 'Constrained expected shortfall (IMCC)' and the formula displayed underneath which actually captures both constrained and unconstrained expected shortfall as per paragraph 189 of the final FRTB standards.

Template MR4 – RWA flow statements of market risk exposures under IMA

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Not useful	Inappropriate	Quarterly: Appropriate	End-2019: Appropriate

General comments:

- We appreciate the purpose of this template is for the users to understand the causes of market risk RWA movements. However, the quantification of movements by RWA drivers would not be derived consistently among banks. We fear that this would present a misleading picture to users and also it is unclear how the numerical breakdown would be beneficial for investors.
- The outcome of template MR4 would vary based on the sequencing of the RWA drivers. This is due to the inter-dependencies among the drivers in order to calculate the incremental impact. Sequencing of the drivers may vary significantly among banks, leading to significantly different weighting of these drivers by these banks.
- The overall impact of certain changes can be difficult to ascertain and often leads to the need for significant judgement. For example, a regulatory policy change can initially lead to a RWA increase in a period and in the next, trigger the bank to adjust its risk appetite, hence reducing RWAs through a decrease in risk levels in the affected portfolios. Such a requirement for judgement as to how these impacts are usefully categorised would likely lead to a lack of comparability.
- The preparation of this table is foreseen to be overly complex. This would require models to be run multiple times in order to decompose the RWA movement down to individual drivers. This constitutes significant operational burden on banks which is unjustified given the output from such calculations do not provide an informative view of RWA movements.
- As defined in paragraph 181 (j) of the final FRTB standards, the aggregate market risk capital requirements under IMA are subject to a joint calculation of internally modelled expected shortfall capital charge and stressed capital add-on for non-modellable risk ('NMR') factors. It is therefore not meaningful to break down the total market risk RWAs by expected shortfall and NMR.
- Under the final FRTB standards, the aggregate market risk capital requirements under IMA utilise the maximums between 60-day average values and most recent single day values. This can lead to swings and cliff effect movements in the market risk RWAs which are not easily captured in the current table.

Recommended changes:

- Simplify the template by only showing the movements on total Market risk RWAs and provide accompanying narrative to explain the drivers at the total level only.

Points where clarification is required:

- Clarify the definition of row 6 'Foreign exchange movements'. Is this FX translation or structural FX risk?
- Clarify the definition of 'Other adjustments'. Would this column include other risk factors which are not included in NMR?
- Column 'e' 'Adjustments' is defined such that column $f = a + b + c + e$ but there is no column 'b'. Please clarify.

Part 12: Operational risk

Table ORA – General qualitative information about operational risk management

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Useful	Appropriate	Annual: Appropriate	TBD

General comments:

- A significant portion of qualitative disclosures required by ORA is disclosed in banks' annual reports. Given this is a flexible table, we will use sign-posting as much as possible to avoid duplication of disclosures.

Recommended changes:

- None.

Points where clarification is required:

- None.

Template OR1 – Historical losses used for SMA calculation

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Not useful	Appropriate	Annual: Appropriate	TBD

General comments:

- OR1 requires ‘the total of the loss amount of individual losses for each of the last ten reporting periods’. This requirement might imply that banks capture all operational losses at any financial threshold in their operational risk databases. This is not the case, as banks generally implement internal operational risk loss data collection thresholds above which losses are individually captured. For example, a large bank may have an operational risk loss data collection threshold of USD10,000. Losses below this threshold may be captured only on an aggregated basis.
- Requirements in OR1 and OR3 are largely overlapping as both require the disclosure of historical operational losses.
- The criteria used by banks to define operational losses may vary significantly. Without general information to explain what counted towards incurred losses, the user community may find it difficult to understand the potential large discrepancies.

Recommended changes:

- OR1 requirement should be amended to clarify that only operational risk losses above a bank’s internal operational risk data collection threshold should be disclosed.
- OR1 and OR3 should be merged into one table where banks using historical losses populate total operational risk losses only once to avoid duplication.
- Qualitative disclosures to describe how incurred loss is internally defined should be introduced in OR4 in order to better help users understand other operational risk disclosures.
- The revised operational risk standards are currently under consultation by the Committee. We request an appropriate period of time is provided between the effective date of the policy framework and the disclosure requirement to allow banks time to develop their reporting processes.

Points where clarification is required:

- None.

Template OR2 – SMA – business indicator and subcomponents

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Useful	Appropriate	Annual: Appropriate	TBD

General comments:

- None.

Recommended changes:

- None.

Points where clarification is required:

- None.

Template OR3 – Historical losses

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Not useful	Appropriate	Annual: Appropriate	TBD

General comments:

- Banks disclose legal provisioning information in their annual reports which is a good indication of historical operational loss. There is a risk of having repetitive disclosures.

Recommended changes:

- See OR1 above.

Points where clarification is required:

- None.



Part 13: Interest rate risk in the banking book

Covered under a separate consultative document

Part 14: Remuneration

Table REMA – Remuneration policy

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Useful	Appropriate	Annual: Appropriate	End-2017: Appropriate

General comments:

- None.

Recommended changes:

- None.

Points where clarification is required:

- In relation to section (a), the use of external consultants, we understand this to mean external consultants who provide advice to the remuneration committee on remuneration policy related matters, and not external consultants that provide ad hoc advice on local labour laws and operational issues that may arise as part of implementation of the remuneration policy. We also believe advice provided by external consultants to the internal human resource function and/or the internal legal function of the firm on remuneration related matters is outside the scope of this disclosure. Please confirm.

Template REM1 – Remuneration awarded during the financial year

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Useful	Appropriate	Annual: Appropriate	End-2017: Appropriate

General comments:

- None.

Recommended changes:

- None.

Points where clarification is required:

- None.

Template REM2 – Special payments

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Useful	Appropriate	Annual: Appropriate	End-2017: Appropriate

General comments:

- None.

Recommended changes:

- None.

Points where clarification is required:

- None.

Template REM3 – Deferred remuneration

HSBC view	Usefulness to users	Format / content / volume of disclosure	Frequency of publication	Implementation date
	Useful	Appropriate	Annual: Appropriate	End-2017: Appropriate

General comments:

- None.

Recommended changes:

- None.

Points where clarification is required:

- None.

General comments across a number of different templates:

- Row numbers have been included in the templates to aid consistency and comparability. However, in the flexible templates, the rows can be added, removed, re-ordered, re-labelled, so the numbering the rows in flexible templates is not necessary. Therefore, we recommend that the flexible templates should not have row numbers.
- Greater flexibility should be permitted regarding sign-posting and referencing of disclosed information. In particular, we feel that the condition relating to the supervisory authority being subject to legal constraints in its ability to require the reporting of duplicative information especially restrictive.