24 June 2013

Dear Sirs

Consultation Paper on Draft Implementing Technical Standards on supervisory reporting on forbearance and non-performing exposures (‘CP06’)

We welcome the opportunity to respond to the European Banking Authority’s (EBA) consultation on supervisory reporting on forbearance and non-performing exposures under the Financial Reporting framework (‘FINREP’).

HSBC is one of the largest banking and financial services organisations in the world, with assets of US $2.681 billion at 31 March 2013. Headquartered in London, HSBC serves customers worldwide in over 80 countries and territories in six geographical regions. HSBC provides a broad range of financial services and products organised through four global businesses, Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking.

We support the EBA’s objective to improve regulatory harmonisation in Europe and the goal of achieving more effective risk identification through greater accord in prudential reporting. However, we have significant concerns with the timing, complexity and scope of CP06. Our key concerns are as follows:

- HSBC, since December 2011, has dedicated significant systems and reporting resources to implement the FINREP requirements in multiple reporting sites. While CP06 does not specify an effective date, based on our implementation experience, we believe that the granular and broad requirements of CP06 as currently drafted would require 18 to 24 months to implement. Such a timeframe will also avoid putting at risk the industry’s ability to deliver FINREP, as currently specified, by 1 January 2014. Therefore, we recommend an effective date of any finalised requirements of 1 January 2016.

- The proposed definition of forbearance and non-performing set out in CP06 is too broad and goes significantly beyond the existing accounting and regulatory definitions. The proposed definition also does not align to how banks manage credit risk (see following comments on trading portfolios) and therefore existing data. This will result in significant implementation and ongoing costs to meet the proposed requirements – and could also result in confusion among investors and others who may not understand the differences in definitions. In particular, the proposed definition encompasses trading portfolios for which, given their nature, there is no established concept of forbearance/non-performing as credit risk is incorporated into the fair value and they are not managed within a traditional banking book credit process. We therefore recommend that the final definition is consistent with the existing accounting and regulatory rules to reflect current risk management techniques and, in particular, that the scope of CP06 is limited to loans and advances to customers and banks measured at amortised cost.

- CP06 is based on an accounting scope of consolidation whereas the other FINREP requirements are based on a regulatory scope of consolidation. We have previously commented that using a regulatory rather than accounting scope of consolidation will cause significant implementation issues and result in differences between published financial information and FINREP. We strongly support an accounting scope of consolidation (based on IFRS) and encourage the EBA to apply this basis to the broader FINREP requirements. If this is not possible it is unclear how the FINREP requirements will interact with CP06 from a reporting and data perspective and we believe further consultation will be necessary.

Our detailed responses to the questions set out in CP06 are provided in the Appendix. As always, we would be pleased to discuss our comments and concerns in more detail if this would be helpful.

Yours sincerely,

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Deputy Group Chief Accounting Officer