Thank you for the opportunity to comment on the FSB’s proposed framework for post-implementation evaluation of the effects of the G20 financial regulatory reforms.

The development of this framework is most welcome, and takes forward B20 recommendations adopted by G20 Finance Ministers and Central Bank Governors at their meeting in Cairns 2014. The FSB is well placed to lead this assessment work for the G20, and we applaud the German G20 Presidency in placing this important work prominently in its agenda for the G20 in 2017.

HSBC supports, and has participated in the development of a number of industry responses to the consultation but we thought it important to emphasise a number of points. A key consideration for us is the importance of promoting mutual trust and co-operation between supervisory authorities. This is critical to maintaining open financial markets and resisting fragmentation, both necessary in promoting the G20 objective of strong, sustainable and balanced growth.

For this reason we encourage the FSB and Standard Setting Bodies (SSBs) to consider:

- **Actual implementation outcomes.** The FSB Standing Committee on Standards Implementation needs to move beyond asking whether something is implemented to looking at how it has been implemented. Consistent with this, national measures that go beyond international standards must be considered in any credible analysis of the impact of the post-crisis regulatory framework. While such measures may significantly add to the stability of the system, there are costs, including cross-border spill overs through a lack of co-ordination, reciprocity or harmonised application.

- **Supporting international trade.** Openness across borders should be at the core of the post-crisis regulatory framework. Measures that impose frictions in cross-border activities should be scrutinised closely: any financial stability policy that reduces the
openness of the financial system should be amended unless it can be demonstrated that the financial stability risks involved cannot be managed in any other way, and the financial stability benefit outweighs the detriment to openness.

- **Well-functioning markets that support communities.** The evaluation approach should be based on the outcomes observed in markets and whether desired outcomes are being achieved for those markets. These outcomes should be benchmarking against the vision of the political commitments announced in the midst of the crisis. This approach would facilitate a more direct analysis of the impact on banks, products, and customers and the wider community they live in. It could also include consideration of instances where new and/or revised regulatory approaches may result in significant overlap, competing demands or inconsistent objectives.

- **Independence and governance.** The FSB and the SSBs should consider the actual and perceived independence of the reviews, and the possible role of the IMF, industry, and academia in the governance of the reviews.

- **Timing:** Evaluation of new regulatory regimes should be undertaken once requirements are fully bedded in. We note for example that a number of key reforms such as the fundamental review of the trading book, new counterparty credit risk requirements and the TLAC standard are yet be implemented. In other areas, the revised framework is yet to be fully finalised such as credit risk requirements. It is therefore necessary to undertake analysis of these standards once implemented before any further reforms are embarked upon.

More detailed comments are provided in the attached responses to the consultation questions. We look forward to working with the FSB and the SSBs as the Reviews progress, and as the framework continues to evolve with experience over time.

Yours sincerely

D J Flint  
Group Chairman  
HSBC Holdings plc

cc Governor Mark Carney, Bank of England
Attachment A – HSBC comments on the proposed FSB Framework

1. Main elements of the evaluation framework
   - The Framework is unclear as to the relationship between the FSB and the Standard Setting Bodies (SSBs), and yet at times the paper reads like a rules of engagement between the FSB and SSBs. It is unclear which bodies would consider the policy implications of the reviews and appropriate recommendations. The FSB should have the final say in the advice to the G20, given its role as the co-ordinator of the post-crisis agenda, and the greater alignment between its membership and that of the G20 relative to the SSBs. This is critical given the different memberships of the respective organisations, and the perceptions of the FSB or the SSBs ‘marking their own homework’.
   - An excellent example for consideration here is the FSB Thematic Review on OTC Derivatives Trade Reporting\(^1\). This was a thorough review which considered the differences in the national implementation of international commitments, and made clear recommendations for national actions that were adopted by G20 leaders.

2. Objectives and scope of the framework
   - The concept of ‘measurable benchmarks’ warrants further explanation as it appears to be an undue focus of the evaluation objectives. Given the FSB’s interest in the “outcomes” of implementation supporting cross-border equivalence or mutual recognition decisions, then a focus on equivalent outcomes should be the core objective for these reviews, rather than the consistency/comparability of the method to achieve them.

3. Additional concepts and terms
   - It is essential that national policy measures, including ‘gold plating’ are considered in the Reviews. There are a number of important policy measures adopted at a national level which are not included in the benchmarks established by the FSB or SSBs but which have been both 1) decisive in achieving financial stability objectives and 2) a source of great cost to financial institutions and growth. A crucial example is stress testing which has had direct capital requirement implications.
   - Macropuridential measures require a particular focus, given their increasing application without global standards, without formal cross-border co-operation and reciprocity measures, and their potential for the double counting of risks in the regulation of firms.

4. Scope
   - The scope could be clearer on the micro nature of impact considerations – including whether the impacts identified could result in findings relating to individual firms, jurisdictions, or products within jurisdictions.

In undertaking its analysis, the FSB should have regard to any relevant evidence that arises in relation to ongoing projects, including the Policy Recommendations to Address Structural Vulnerabilities from Asset Management Activities².

5. How to frame the trade-offs between different objectives

- While financial stability overall is at the FSB’s core, so is openness and mitigating the risk of fragmentation in contributing to the G20’s overall objective of strong, sustainable and balanced growth. As the free-movement of capital and resources are critical determinants of strong, sustainable and balanced growth—and within the FSB’s mandate—any financial stability policy that reduces the openness of the financial system should be amended unless it can be demonstrated that the financial stability risks involved cannot be managed in any other way, and the financial stability benefit outweighs the detriment to openness.

6. Social benefits and costs

- Focusing on the social benefits and costs will always require proxies. For banking, the starting position ought to be considering product markets and their participants. This gives the FSB and SSBs the flexibility to consider the impact of reforms on different product lines (for example: long dated assets; derivatives; swaps; green bonds or treasuries). Past attempts to justify the TLAC standard to ensure taxpayers did not pay for future bailouts were simplistic—TLAC holdings are likely to be held by pension fund holders, resulting in a distributational impact on taxpayers (those with a stock of pension savings) rather than no impact at all. Great care is required in working through costs to society and it may not always be the case that financial regulators are best placed to undertake these types of analysis, especially across multiple borders.

7. Evaluation approaches

- This is discussed in greater detail by the industry associations, but assessments should focus on product-level analysis and consider the state of critical markets. The study by the Committee on the Global Financial System into repo markets backed by government bonds is an example of this approach³. It will not always be possible to identify or confirm causality of the impact of regulations. A better approach would be to consider market functioning and reflect on whether the regulatory environment is achieving the desired outcomes for that market. This indicates an important role for the FSB SCAV in the analysis.

- It would be worth keeping in mind industry comments⁴ regarding the challenges associated with measuring market liquidity and investor behaviour in evaluating policy settings.

8. Quality and ensuring results can be replicated

² http://www.fsb.org/2017/01/policy-recommendations-to-address-structural-vulnerabilities-from-asset-management-activities/
• We have nothing to add to industry views in this area, though using past QIS results and models and comparing these to actual outcomes could be an important starting point for reviews on topics previously considered by a QIS.

9. Lessons from national and regional evaluation frameworks
• An element of independence is often incorporated into processes where the stock of regulation is being considered (rather than the latest flow). FSB members commit to lead by example, undertaking regular IMF Financial Sector Assessment Programmes (FSAPs), and FSB peer reviews. These both incorporate the concept of independence, with the IMF standing independently of the FSB and SSBs, and FSB members holding each other to account. In some jurisdictions, the review of the stock of regulations may draw from public sectors, private sectors and academia, such as the Financial System Inquiry in Australia (2014)\(^5\), and the Independent Commission on Banking in the UK (2011)\(^6\).

• The FSB should give consideration to the actual and perceived independence of its reviews, and in considering the appropriate governance arrangements, give thought to the role of the IMF, and the possible participation of representatives from industry and academia.

10 and 11. Information sharing arrangements & engagement with stakeholders
• Where Reviews are delegated to committees, or experts from member jurisdictions, these should be disclosed to aid industry engagement and co-operation.

12. List of topics for consideration for future reviews
• We understand from an FSB roundtable with industry that the ambition is hold 1-2 Reviews a year. This may reflect the FSB intended depth of analysis. However, not all topics will necessarily require such an in-depth approach. For example, the CGFS\(^7\) study on trade finance could be updated and policy issues identified without needing the same level of commitment as reviewing (for example) the prudential capital framework.

1. Fragmentation— Subsidiary and intermediate holding company requirements come from a lack of credible supervisory and resolution planning co-operation. The Basel SIFI framework was intended to address globally active banks, but national measures and increasing subsidiarisation are leading to global banking groups comprising locally active banks.

2. Pro-Cyclicality — The interaction of IFRS9 (and the lack of long term capital offsets accompanying it), increasing reliance on standardised models with homogenous inputs, and potential feedback loops between elements of regulation that may drive pro-cyclical risks. The counter cyclical capital buffer may not be well positioned to

\(^{7}\) 2014 Committee on the Global Financial System – Trade Finance: developments and issues: [http://www.bis.org/publ/cgfs50.pdf](http://www.bis.org/publ/cgfs50.pdf)
address these issues alone, and waiting till we find out how serious these risks are in practice could prove costly.

3. **Trade finance** – There have been significant changes in trade developments, and developing a thorough understanding of the impact of financial regulations on trade financing costs. It is important to establish whether the costs of regulation are proportionate to trade financing risks, or whether the provision of trade finance simply became less attractive as the role of risk sensitivity in the capital framework has been undermined.

4. **Emerging markets** – There is a need for a greater analysis of the impact of the decline in cross-border banking activities identified in both the 2015 and 2016 FSB Annual Reports. Any such review must take account of feedback from the industry as participants may be uniquely placed to inform the FSB of the impact of the financial reforms on the cross-border banking business of large banking groups.

5. **Capital and Stress-testing** – The implications of gold-plating of standards and differing national implementation of internationally agreed standards, needs to be considered alongside the question of whether the original measures as planned have been implemented. Increasing capital requirements have been acknowledged as having an impact on: shareholders returns; prices for customers; and marginal activities being withdrawn. Yet while acknowledged, acceptable limits have not been identified. These need to be considered in greater detail. This should include consideration of where regulatory requirements are overlapping and give rise to the double counting of risks. For example the capital buffer framework and use of macro-prudential tools is overly complex and in places not well articulated with clear objectives. Whilst we agree that such tools are necessary to target certain risks/asset class risks or sectoral risks, these should be clearly defined in terms of objectives, usage and underpinned by identifiable and quantitative indicators.