HSBC Holdings plc

Resolvability Assessment Framework – a review of HSBC's preparedness
10 June 2022

HSBC

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Presentation of information

The information set out in this report has a reference date of 31 December 2021 unless otherwise stated.

Unless the context requires otherwise, 'HSBC Holdings' means HSBC Holdings plc and 'HSBC', the 'Group', the 'HSBC Group', 'we', 'us' and 'our' refer to HSBC Holdings together with its subsidiaries. The abbreviations 'US$m', 'US$bn' and 'US$tn' represent millions, billions (thousands of millions) and trillions of US dollars, respectively.

1. Executive Summary

The 2008/9 financial crisis highlighted the importance of both financial institutions and regulators being prepared to respond effectively to severe stress events, and the disruptive and costly nature of disorderly bank failure.

As part of the subsequent global regulatory reforms, regulators have called on large, systemically important financial institutions, such as HSBC, to improve their preparations for responding to such events – to ensure they have tools to recover from stress scenarios (recovery planning) and, in the unlikely event they are unable to recover, to ensure they have capabilities to manage a failure in an orderly way (resolution planning).

Since the financial crisis, the BoE and the Prudential Regulation Authority (PRA) have developed their views and standards on resolution, culminating in the creation of the RAF[1]. The overarching aim of the RAF is to ensure that financial institutions such as HSBC are able to demonstrate that they could be resolved in an orderly way in the event of a resolution and are accountable for ensuring that they are prepared for resolution. The RAF brought together new and existing rules and policies regarding resolution planning into three resolvability outcomes which major UK banks were required to be able to achieve by January 2022. The three outcomes are:

i. having adequate financial resources in the context of resolution;

ii. being able to continue to do business through resolution and restructuring; and

iii. being able to co-ordinate and communicate effectively within the firm and with the authorities and markets so that a resolution and subsequent restructuring are orderly.

As a global systemically important bank (G-SIB) with approximately 40 million customers worldwide, HSBC supports the aims of the RAF. HSBC is committed to continually maintaining and improving its capabilities to manage stress, recovery and to facilitate an orderly resolution, thereby helping to ensure that the HSBC Group is prepared for any potential future crises.

To meet the three RAF outcomes, HSBC has built on its existing preparations while making further significant improvements to its resolvability capabilities. To support the HSBC Group's resolution strategy, HSBC has assessed resolvability from both a UK-focussed and a Group-wide perspective and has sought to implement consistent capabilities across its material entities[2], addressing local resolution requirements where relevant. Our key capabilities to date include:

Outcome 1: Adequate financial resources

- US$ 271bn[3] of total loss-absorbing capital on a Group consolidated basis (equal to 32.3% of the HSBC Group's risk-weighted assets (RWA) against a regulatory minimum of 26.3%) to help recapitalise HSBC in the context of resolution.
- US$ 880bn[4] of high-quality liquid assets (HQLA) on a Group consolidated basis (equal to 29.7% of the total net asset base of the HSBC Group) to help provide liquidity to our operating banks in the context of resolution.

[1] See https://www.bankofengland.co.uk/financial-stability/resolution/resolvability-assessment-framework

[2] HSBC has developed capabilities to meet the BOE's RAF requirements in its 15 most material entities, accounting for approximately 89% of Group assets. This includes HSBC Holdings plc, HSBC Bank plc, HSBC UK Bank plc, HSBC Continental Europe, HSBC Trinkaus and Burkhardt AG, HSBC Bank Malta plc, The Hongkong and Shanghai Banking Corporation Limited, Hang Seng Bank Limited, HSBC Bank (China) Company Limited, HSBC Life (International) Limited, HSBC Bank USA National Association, HSBC Securities (USA) Inc, HSBC Bank Canada, HSBC Mexico, S.A. and HSBC Bank Middle East Limited.

[3] US$ 271bn represents the HSBC Group's consolidated MREL/TLAC as at 31st December 2021; which is 32.3% of Group RWAs as at 31st December 2021 (on a transitional basis) against a binding requirement of 26.3% as at 1st January 2022. Further details regarding the MREL that HSBC has issued, including at the level of each of its resolution groups, are set out in its Pillar 3 disclosures available at https://www.hsbc.com/investors/results-and-announcements.

[4] As at 31st December 2021. Note that, of the US$ 880bn, US$ 172bn of which is to be taken as having 'limited' transferability around the HSBC Group following the application of European Commission Delegated Regulation (EU) 2015/61. See HSBC Holdings' Annual Report and Accounts 2021 for further information.

- New valuations capabilities to help inform HSBC's entry into resolution, the terms of a subsequent bail-in and recapitalisation, and any required restructuring to restore viability.

Outcome 2: Continuity and restructuring

- A global operational service company structure specifically configured to support HSBC's resolvability on an ongoing basis.
- A ring-fenced bank in the UK (HSBC UK Bank plc).
- Readily-available information on HSBC's key service arrangements to help identify any risks to continuity arising from entry into resolution.
- Risk assessments setting out the actions HSBC would be required to take in order to maintain access to important payment systems, clearing houses, and securities depositories.
- Third-party contingency arrangements are in place to help ensure the HSBC Group is able to clear US dollars in resolution.
- Inclusion of contractual terms in certain critical operational contracts to help to ensure the continuity of service provision to support restructuring.
- Additional and enhanced restructuring options that could be taken to restore HSBC to viability, supported by the creation of a process to develop a business reorganisation plan (BRP).

Outcome 3: Co-ordination and communication

- Key roles in resolution identified through new methodology, with enhanced plans to help ensure the retention of key people in resolution.
- A governance framework, aligned with existing governance structures, to facilitate the implementation of resolution.
- Communications plans to help ensure HSBC is able to plan for and deliver communications to all its stakeholders in resolution.

The improvements we have made should continue to improve our day-to-day financial and operational resilience and, in doing so, help support our ability to serve our customers.

As part of the RAF, HSBC has performed a self-assessment of its preparations for resolution (Self-Assessment) and is disclosing in this report a summary of that assessment. Alongside this report, the BoE will communicate publicly its assessment of HSBC's resolvability and the resolvability of other firms that are subject to the RAF.

HSBC's global presence and its international banking model means that it provides many financial products and services across multiple regions. Accordingly, HSBC has built resolution capabilities that aim to: (a) minimise the impact of HSBC's resolution on both the UK and global financial systems; depositors, clients, and counterparties; (b) maintain continuity of HSBC's core business lines, critical banking functions and its material operating banks; and (c) avoid the destruction of value associated with a disorderly and / or sudden break-up of HSBC's global wholesale client network across its business lines.

In assessing our preparations for resolution, we have identified areas that require further improvement. In particular, HSBC recognises that it needs to take steps to enhance its capabilities for the execution of deep restructuring actions[5] that could potentially be required in certain resolution scenarios. As an international financial institution operating in 64 countries and territories, HSBC utilises shared services, operational assets and technology across multiple business lines and geographies. The changes that would be required to this infrastructure to support certain restructuring actions, which may be needed in resolution, would be complex. HSBC is in the process of performing a thorough assessment of the preparatory actions which may be needed to enable a timely and orderly restructuring in a resolution context. These actions will potentially be executed over a multi-year period. Other planned enhancements include improvements to our resolution-specific liquidity reporting and forecasting, including analysis which identifies and projects collateral balances that may be available in resolution. This work will be developed in 2022 and 2023 with the aim of providing more granularity, automation and flexibility. HSBC will also undertake further analysis on its payment, settlement, custody and clearing services providers, referred to as Financial Market Infrastructures (FMIs) that are not critical to its business to identify and help mitigate any potential risk to resolution.

The HSBC Holdings Board (Board) has been actively engaged in and has overseen the development of HSBC's resolvability capabilities. As part of the Board and senior management's commitment, HSBC continues to invest considerable resources in strengthening its recovery and resolution planning (RRP) and execution capabilities, and ensuring they are regularly tested with learnings and improvements shared across relevant areas of the HSBC Group.

As part of this investment, significant effort continues to be made to further embed resolution planning into our business-as-usual operations in order to help ensure the sustainability and operational readiness of resolution planning in the HSBC Group. HSBC is enhancing its RRP operating model by transitioning into a Group-wide operating framework that includes the allocation of responsibility for maintaining resolvability capabilities to key accountable executives on the HSBC Group's Executive Committee and the expansion of HSBC's Global RRP Office. This aims to ensure that RRP requirements continue to be addressed and that an appropriate level of readiness is maintained at all times.

The Board's oversight has been supported by a review and challenge framework, involving HSBC's Risk and Internal Audit functions, created to help support the development of our resolvability capabilities and provide further assurance. The Board, along with the HSBC Group Executive Committee and other senior management, have also taken part in live simulations to help provide assurance that the resolution capabilities could operate as intended.

We are pleased to present this summary of our preparations to support the BoE and PRA, as well as our other regulators and resolution authorities globally, in executing the preferred resolution strategy of the HSBC Group in the event of any resolution and we are committed to working with these partners to continue enhancing our preparedness for resolution.

[5] HSBC defines "deep restructuring actions" to be the most fundamental restructuring actions which could potentially be required in certain resolution scenarios.

2. About the UK Resolution Regime and this report

2.1. The purpose of resolution

As part of global reforms, regulators have called on large, systemically important financial institutions, including HSBC, to improve their preparations for responding to severe stress events. This has included developing recovery capabilities that would be used in the case of severe stress. These recovery capabilities are set out in HSBC's Group Recovery Plan (GRP), which includes a range of options that could be used to recover the HSBC Group, supported by scenario testing (to help ensure that the options provide sufficient recovery capacity), playbooks and governance arrangements. If recovery planning fails, then HSBC could be placed in resolution.

The purpose of resolution is to manage the failure of a bank or financial institution in order to minimise the impact on depositors, the financial system and public finances. The BoE and HSBC's other resolution authorities need to be assured they can use their powers, if needed, to resolve HSBC, while still protecting public funds, avoiding significant adverse effects on the financial system, and ensuring continuity of banking services and critical functions[6]. In turn, HSBC is expected to have the capabilities to carry out its resolution strategy, as determined by the BoE and other resolution authorities.

Further information regarding the UK's resolution regime can be found on the BoE's website[7].

2.2. Resolvability Assessment Framework

Since the financial crisis, the BoE has developed its views on resolution, culminating in the creation of the RAF. The overarching aim of the RAF is to ensure that firms that are subject to the RAF are able to demonstrate that they could be resolved in an orderly way and are accountable for demonstrating how they are prepared for resolution. The RAF brought together new and existing rules and policies regarding resolution planning into three outcomes which major UK banks were required to be able to achieve by January 2022:

i. To have adequate financial resources in the context of resolution;

ii. To be able to continue to do business through resolution and restructuring; and

iii. To be able to coordinate and communicate effectively within the firm and with the authorities and markets so that resolution and subsequent restructuring are orderly.

The RAF defines the information that firms need to provide to the BoE, and how the BoE will use this information to determine whether a firm is adequately prepared for resolution. This includes how firms should prepare to meet the resolution outcomes. Further details on the RAF, the resolution outcomes and related policy requirements are available from the BoE's website[8].

2.3. Delivering RAF outcomes across the HSBC Group

To support the HSBC Group's preferred resolution strategy, HSBC has sought to implement consistent resolution capabilities across its material entities, whilst also addressing local resolution requirements where relevant. This is consistent with HSBC's view that holding the HSBC Group together in resolution is the optimal strategy to deliver the most effective resolution outcome for all of its stakeholders.

[6] As set out in the Financial Stability Board's Recovery and Resolution Planning for Systemically Important Financial Institutions: Guidance on Identification of Critical Functions and Critical Shared Services, 'critical functions' are activities performed for third parties where failure would lead to the disruption of services that are vital for the functioning of the real economy and for financial stability due to the banking group's size or market share, external and internal interconnectedness, complexity and cross-border activities.
[7] https://www.bankofengland.co.uk/financial-stability/resolution
[8] https://www.bankofengland.co.uk/financial-stability/resolution

3. HSBC Group Structure

3.1. Overview of the HSBC Group

HSBC is a G-SIB with an international network and global footprint. It has approximately 40 million customers, total consolidated assets of US$ 3.0tn and operations in 64 countries and territories, making it one of the largest banking and financial services organisations globally.

The parent holding company of the HSBC Group is HSBC Holdings plc (HSBC Holdings), which sits at the top of a legal entity structure that consists of a global network of locally-incorporated subsidiary companies and branches organised broadly into regional sub-groups. HSBC Holdings' ordinary shares are listed or admitted to trading on the London Stock Exchange, the Hong Kong Stock Exchange, the New York Stock Exchange (in the form of American Depositary Receipts) and the Bermuda Stock Exchange.

The HSBC Group's operating bank subsidiaries are located across five regions: Europe, Asia, the Middle East and North Africa, North America and Latin America. This includes the UK ring-fenced bank (HSBC UK Bank plc).

HSBC provides a comprehensive range of banking and related financial services to retail, corporate and institutional customers and governments, operating through three global businesses: Wealth and Personal Banking (WPB), Commercial Banking (CMB), and Global Banking and Markets (GBM).

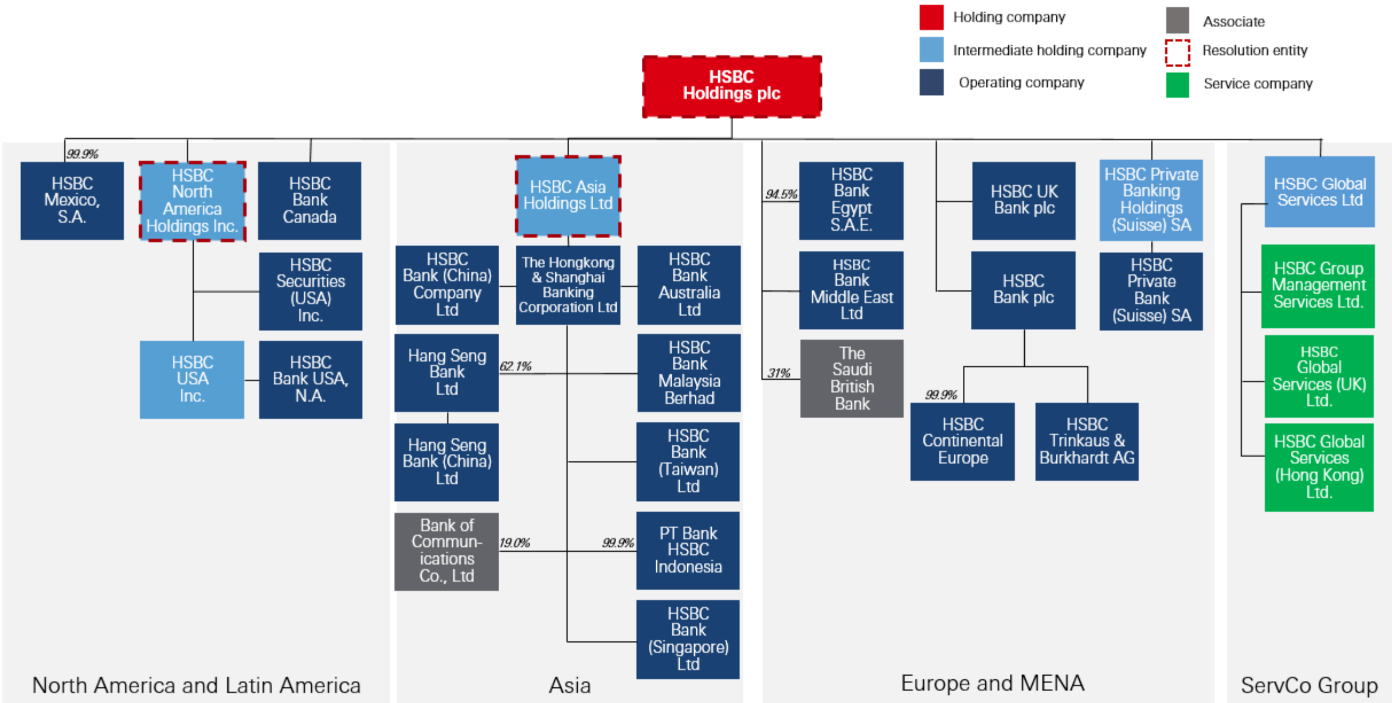
HSBC's global customer franchise and cross-border trade and capital flows help diversify its global banking franchise by bringing financial capital, resources and earnings to support the HSBC Group as a whole as we serve our customers' needs in local and global markets. This means HSBC has a globally interconnected business model, with its global business lines contributing to the delivery of critical functions within and across jurisdictions. It is, therefore, important to ensure continuity in these business lines across all of our regions in resolution, at least in the short term.

Given the geographical footprint of the HSBC Group, resolution authorities have determined that HSBC has three resolution groups that together account for 93% of total HSBC Group RWAs: The Asia resolution group, the European resolution group and the US resolution group. The simplified structure chart set out below provides further details on HSBC's resolution entities and its resolution groups.

Information including key metrics relating to the resolution groups is set out in HSBC Holdings' Pillar 3 disclosures available on the HSBC investor relations website at https://www.hsbc.com/investors.

Further details of HSBC's business can be found in the HSBC Holdings Annual Report and Accounts available on the HSBC investor relations website, together with related financial information.

Simplified HSBC Corporate Structure Chart[9]



3.2. Structural aspects that facilitate resolution

HSBC Holdings is the sole issuer within the HSBC Group of total loss-absorbing capacity (TLAC) or MREL[10] to external investors, while TLAC/MREL is issued internally within the HSBC group with intermediate holding companies that could act as resolution entities for the US and Asia resolution groups. TLAC/MREL is also issued on an intra-group basis by material operating banks to support their recapitalisation in resolution.

The HSBC Group implemented the UK ring-fencing rules, which came into effect on 1st January 2019, through the creation of HSBC UK Bank plc as a newly regulated ring-fenced bank containing HSBC's UK WPB and CMB businesses.

HSBC has established an operational service structure (the ServCo Group). This model, implemented in response to operational continuity and UK structural reform requirements, aims to ensure that operating entities across the HSBC Group can continue to receive critical services if HSBC were to be placed into resolution. The ServCo Group is structurally independent from the operational entities to which it provides services, with critical operational service capabilities, including people, systems, real estate, intellectual property, and other operational assets, held within the ServCo Group. The ServCo Group has its own financial resources including a liquidity buffer which would help to ensure the continued provision of services should HSBC be placed into resolution.

[9] Simplified Structure Chart as at 31st December 2021. Showing entities in major markets, wholly owned unless shown otherwise.
[10] A bank's total loss absorbing capacity (TLAC) includes Common Equity Tier 1, Additional Tier 1 and Tier 2 regulatory capital instruments, as well as other bail-in-able debt instruments known as "Eligible Liabilities". In the UK and EU, TLAC requirements are referred to as minimum requirements for own funds and eligible liabilities (MREL). In practice, the terms MREL and TLAC are used interchangeably, though MREL is an EU/UK concept.

4. Resolution Strategy

4.1. Preferred resolution strategy

HSBC's preferred resolution strategy is multiple point of entry (MPE) bail-in, as determined by the BoE in co-ordination with HSBC's other regulators and members of HSBC's Global Crisis Management Group (CMG)[11]. This strategy provides flexibility for HSBC to be resolved:

i. Through a bail-in at the HSBC Holdings-level, which facilitates recapitalisation of operating bank subsidiaries in the HSBC Group (as required) through the write-down or conversion to equity of TLAC/MREL issued on an intra-group basis, while restructuring actions are undertaken, with the HSBC Group remaining together; and/or

ii. At a resolution group level pursuant to the application of statutory resolution powers by host resolution authorities locally.

HSBC considers that the first option is the optimal strategy to deliver the most effective resolution outcome for its stakeholders, as it should help reduce the risk of disrupting the continuity of critical functions, including cross-border, wholesale services to clients between resolution groups and across the HSBC network, avoid the destruction of value associated with a disorderly and / or sudden break-up of our global business lines, and minimise the risk to public funds.

In designing our resolution capabilities, consideration has been given to both the scenarios where the HSBC Group is held together and where other host resolution authorities exercise their statutory resolution powers locally.

4.2. Bail-in process

In the event of a resolution of the HSBC Group, it is anticipated that the BoE will apply statutory powers to write down or convert to equity the TLAC/MREL issued externally by HSBC Holdings. This would enable operating bank subsidiaries of the HSBC Group to be recapitalised, as needed, to support the resolution objectives and maintain the provision of critical functions globally. Recapitalisation of operating bank subsidiaries would be achieved through the write-down, or conversion to equity, of internally issued TLAC/MREL as required.

This approach to recapitalising operating bank subsidiaries would aim to allow the HSBC Group to stay together in order to help ensure an effective stabilisation of the HSBC Group as a whole and the continuity of critical functions, whilst also facilitating an orderly restructuring process, as needed, to address the cause of failure. This strategy is designed to avoid operating bank subsidiaries defaulting on their obligations and allow them to continue to meet all of their other payment and performance obligations owed to financial counterparties, vendors and other creditors. Depositors would be expected to continue to have uninterrupted access to their deposits and related banking services throughout the entire resolution process.

It is anticipated that any resolution of HSBC as a group would be coordinated by the BoE and the PRA as HSBC's home resolution authority and prudential regulator, respectively. HSBC expects that the BoE would co-ordinate closely with the Group's host resolution authorities outside the UK in the run-up to resolution and would seek to apply our resolution strategy pre-emptively to recapitalise operating bank subsidiaries as needed.

For further details on how the BoE might execute a potential bail-in, see the BoE's operational guide on executing bail-in[12].

[11] The HSBC Group's CMG comprises regulators and resolution authorities from jurisdictions in which the HSBC Group has a significant presence. The CMG formally meets annually to consider the HSBC Group's recovery and resolution planning. The CMG would be assembled to coordinate a resolution of HSBC (led by the BoE) if that were ever required.

[12] *Executing bail-in: an operational guide from the Bank of England* available at https://www.bankofengland.co.uk/paper/2021/executing-bail-in-an-operational-guide-from-the-boe

4.3. Flexibility for resolution powers to be used at the resolution group level

Given the HSBC Group's corporate structure, HSBC is overseen by various regulators and resolution authorities. Host resolution authorities outside the UK could also use their statutory resolution powers in respect of the resolution groups for which they are responsible. This may occur, for example, in the event that host resolution authorities felt that holding the HSBC Group together may no longer achieve their resolution objectives.

The application of these local statutory resolution powers may or may not result in such resolution groups ceasing to be part of the HSBC Group, depending on the resolution strategy adopted by the relevant host resolution authority. HSBC's operating bank subsidiaries that are not part of the three resolution groups would be subject to relevant statutory proceedings independently of the rest of the HSBC Group, if the conditions to initiating such proceedings were met.

5. Implementing the resolution transaction

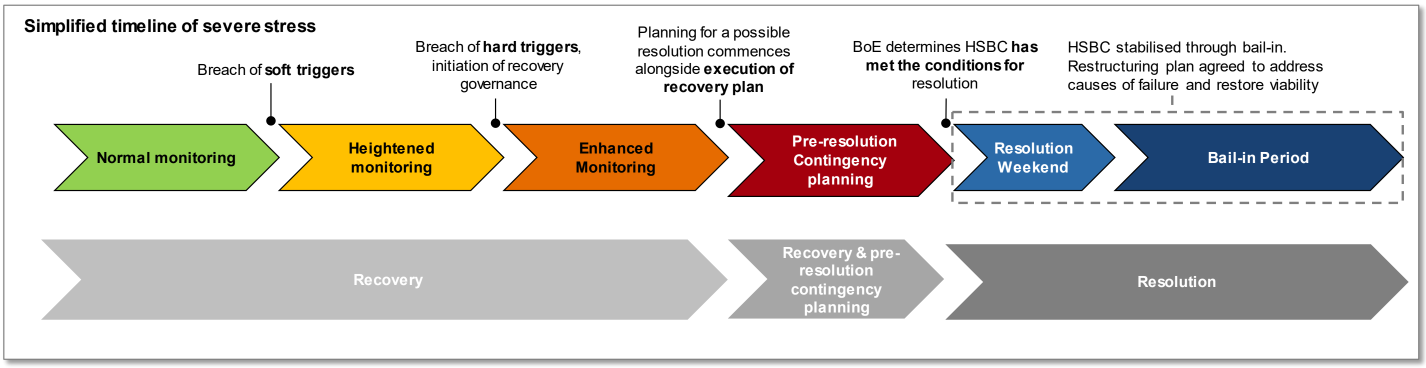
5.1. Prior to resolution: execution of the recovery plan

HSBC uses a range of recovery indicators to monitor developing financial stresses. The recovery indicators are designed to help ensure that the HSBC Group remains alert to stress, is able to respond to stress events quickly, and is in a position to pre-empt material impacts on its financial position. These indicators include forward-looking metrics alongside qualitative and quantitative measures. It is therefore expected that there would be a degree of early warning about the onset of severe stresses.

HSBC's GRP establishes a set of capabilities for risk management from business-as-usual through to stress, on to recovery and ultimately to the commencement of resolution. The GRP also sets out a number of strategic management actions which could be taken to counter stresses and return HSBC to a viable go-forward business. These actions are supported by scenario testing, playbooks and governance arrangements. Only if the actions within the GRP fail to stabilise the HSBC Group, will resolution capabilities be called upon to support an orderly resolution.

We would expect to proactively activate pre-resolution contingency planning in the recovery phase to help support the BoE and PRA's assessment of resolution conditions and to be ready to support an orderly resolution. In the contingency planning phase, HSBC's management may still be in charge, with capabilities in place to support the need to balance pursuing recovery whilst also adequately preparing for a potential resolution.

The timeline below sets out a simplified view of the stages HSBC would expect to take place during a severe stress that deteriorates into resolution.



5.2. Approach to resolution capabilities

To inform our preparations for resolution, we have approached resolution as a complex transaction to be executed on an accelerated timeline, as set out in the BoE's Stylised Resolution Timeline. This comprises three key phases:

i. Pre-resolution contingency planning;

ii. The resolution weekend; and

iii. The Bail-in period.

The exit from resolution would take place once bailed-in creditors receive equity in a restructured HSBC, although it is possible that some restructuring actions may not have been completed prior to HSBC's exit from resolution. For further details on the BoE's Stylised Resolution Timeline, please refer to the BoE's website[13].

[13] https://www.bankofengland.co.uk/financial-stability/resolution

HSBC's capabilities, resources and arrangements for resolution have been developed and tailored around the key decisions and actions it would be required to take and support its regulators and resolution authorities in taking, throughout each phase of the resolution timeline.

We have identified and documented these key decisions and actions in a resolution playbook. The playbook covers the continuum from pre-resolution contingency planning (in parallel to recovery planning) to resolution and through restructuring. It guides the Board on the key decisions and actions it would be expected to consider, the documentation that it would expect to receive to support such decisions and actions, the governance framework that would be in place and the key steps to implement the resolution transaction.

5.3. How resolution capabilities would support the resolution transaction

5.3.1. Outcome 1: Adequate Financial Resources

HSBC is expected to have adequate financial resources to absorb losses and recapitalise so it can continue to operate throughout the resolution period and exit resolution with sufficient financial resources to support the new go-forward business model.

To support this outcome, HSBC's key responsibilities in resolution comprise:

- ensuring the effective recapitalisation of HSBC Holdings and its operating bank subsidiaries (as needed), through the use of TLAC/MREL resources issued externally and on an intra-group basis;
- ensuring an independent valuer is able to carry out timely and robust valuations of the HSBC Group to assess its solvency, the quantum of capital shortfall and the terms of the bail-in;
- ensuring that material HSBC entities can continue to meet their financial obligations as they fall due throughout the resolution period, including monetising a wide range of collateral with third parties, including central banks, where needed; and
- following a successful recapitalisation, enabling the HSBC Group to return to a viable and sustainable business model so it can be returned to private ownership.

A description of the key components of this outcome and the key capabilities that underpin HSBC's ability to discharge these responsibilities are set out below.

TLAC/MREL

HSBC is expected to maintain a sufficient amount of resources that can credibly and feasibly be used to absorb losses in resolution and recapitalise to a level that ensures compliance with the conditions for regulatory authorisation and sustains market confidence. Our key capabilities include:

US$ 271bn of TLAC/MREL (32.3% of RWAs) [14]	HSBC has significant loss absorption and recapitalisation capacity that it believes would be sufficient to absorb plausible levels of losses and recapitalise the HSBC Group and its operating bank subsidiaries (as needed) in the event of resolution. TLAC/MREL is issued externally by HSBC Holdings with TLAC/MREL issued on an intra-group basis by (i) intermediate holding companies that could act as resolution

[14] US$ 271bn represents the HSBC Group's consolidated TLAC/MREL as at 31st December 2021. Further details regarding the TLAC/MREL that HSBC has issued, including at the level of each of its resolution groups, are set out in its Pillar 3 disclosures available at https://www.hsbc.com/investors/results-and-announcements. HSBC's minimum MREL requirement as at 1 January 2022 is 27.8% of risk-weighted assets (RWAs).

	entities for the Asia and US resolution groups and (ii) certain material operating bank subsidiaries of the HSBC Group, thus ensuring there is sufficient loss-absorbing capacity in each of HSBC's resolution groups. HSBC has a portfolio of legacy TLAC/MREL securities which it continues to review in the context of its resolvability.
TLAC/MREL monitoring and forecasting	A TLAC/MREL monitoring system has been developed, capturing key data on our external and internal TLAC/MREL resources. This is being used to monitor, manage and report our capital and TLAC/MREL resources, enhancing the existing monitoring and forecasting processes. HSBC plans to further enhance its capital forecasting capabilities more broadly, as part of wider forecasting improvements planned across the Group. These enhancements to improve precision, flexibility and timeliness will support both recovery and resolution planning.
Execution of bail-in	To support bail-in execution, HSBC has put in place a detailed process and associated governance framework which would facilitate the write-down/conversion into equity of external and internal TLAC/MREL as part of the resolution transaction.

Valuation in resolution

HSBC is expected to have valuation capabilities in place to enable an independent valuer to carry out sufficiently timely and robust valuations to support effective resolution. This includes valuations that would help inform entry into resolution, help determine the most appropriate resolution tools, the terms of the resolution and the "no creditor worse off" (NCWO) analysis[15]. Our key capabilities include:

New valuation process	Accelerated processes for producing resolution valuation analysis have been developed, which have been tested, including with a third party acting as a hypothetical independent valuer. HSBC is of the view that it would be able to support the Board, the independent valuer and the BoE throughout the resolution period but most critically in the pre-resolution contingency planning and resolution weekend phases by producing key valuations relating to the HSBC Group. Through the new valuation processes, HSBC is able to produce: • An updated intra-month accounting balance sheet and key regulatory metrics on a weekly basis (a "failing-or-likely-to-fail" valuation); • an updated intra-month economic value balance sheet and capital metrics taking into account the impact of selected restructuring actions on a fortnightly basis (an asset and liability valuation);

[15] The bail-in power is subject to the "no creditor worse off" safeguard, under which any shareholder or creditor which receives less favourable treatment in resolution than they would have had the institution entered into insolvency may be entitled to compensation.

	• an updated five-year forecast business plan incorporating the impact of proposed restructuring actions on a fortnightly basis. This capability also supports the production of the BRP (an equity valuation); and • an updated balance sheet on an insolvency valuation basis in 30 days to inform the NCWO assessment (an insolvency counterfactual valuation).
Valuation models	HSBC's valuation models have been developed further, including those used in business as usual environments, and new models have been created to support resolution valuations. HSBC plans to enhance the granularity of its data to support these valuations and the flexibility of its models so they can adapt to different scenarios and produce sensitivity analysis of the inputs and assumptions used for the insolvency counterfactual valuation.

Funding in resolution

HSBC is expected to ensure that it can continue to meet its obligations as they fall due, is able to estimate and monitor its potential liquidity resources and needs, and can mobilise liquidity resources in the approach to and throughout resolution. Our key capabilities include:

US$ 880bn[16] of HQLA **Group LCR of 138%**	HSBC has a total stock of US$880bn of HQLA held at entity level to provide liquidity to the operating bank subsidiaries. The HSBC Group's Liquidity Coverage Ratio (LCR) is 138% demonstrating our strong ability to meet short-term obligations and maintain cash flows in the event of stress and ahead of a possible entry into a resolution scenario. We also maintain access to a diversified mix of funding sources.
Liquidity analysis	Analytical capabilities have been developed further to estimate the increased demands on liquidity we would expect to arise in stress and resolution, including increased demands from its FMIs, and to rapidly report spot positions and forecasts. HSBC plans to improve its capabilities to produce resolution specific liquidity analysis and considers that some improvements are required to extend the coverage and increase the granularity of its liquidity models. The majority of these improvements are expected to be delivered in 2022, with some remaining work planned for subsequent years. Accompanying this, HSBC plans to improve its liquidity forecasting capabilities as part of wider forecasting improvements planned across the Group to help increase the level of granularity, precision and timeliness in the run up to, during and post resolution.

[16] As at 31st December 2021. Note that, of the US$ 880bn, US$ 172bn of which is to be taken as having 'limited' transferability around the HSBC Group following the application of European Commission Delegated Regulation (EU) 2015/61. See HSBC Holdings' Annual Report and Accounts 2021 for further information.

Liquidity and collateral management	HSBC has existing capabilities to mobilise liquidity resources in the approach to and throughout resolution, and to analyse the additional liquidity resources that could be available in order to meet our obligations as they fall due during that period. We plan to enhance our capabilities for analysing and mobilising securities and loan collateral in 2022 and 2023 to help improve their automation and flexibility. This includes the identification of eligible loan collateral (both for central bank and other third party liquidity facilities), operational processes to mobilise collateral and the reporting of available capacity.

5.3.2. Outcome 2: Continuity and restructuring

HSBC is expected to ensure that its activities can continue in resolution. To meet this expectation, we have built on our existing capabilities in order to further mitigate any risk to the continuity of services, financial contracts and access to FMIs throughout the resolution period, including through any restructuring. We have a number of restructuring options which could be used to restore HSBC to viability in the event of resolution, and have committed to taking appropriate steps to enhance this capability as set out below.

To support this outcome, HSBC's key responsibilities in resolution comprise:

- ensuring the continuation of critical services through the resolution period;
- ensuring continued access to critical FMIs through resolution and restructuring;
- suitably addressing the risk of early termination of financial contracts where HSBC entities are placed into resolution; and
- ensuring the successful restructuring of the HSBC Group with a credible go-forward business that ensures the continuity of services.

A description of the key components of this outcome and the key capabilities that underpin HSBC's ability to discharge these responsibilities are set out below.

Operational continuity in resolution

HSBC is expected to ensure the continuity of banking services and critical functions at the point of entry into resolution and facilitate any required restructuring. Our key capabilities include:

ServCo Group	The ServCo Group is specifically configured to support HSBC's resolvability on an ongoing basis. The ServCo Group is structurally independent from HSBC's operating bank subsidiaries and provides critical shared services on an arm's length basis. It does not conduct any regulated banking activities. The ServCo Group has its own financial resources including a liquidity buffer to mitigate any risk of disruption to the provision of services through recovery and resolution. This is in line with local regulations and is designed to work in conjunction with our funding in resolution capability. Tailored contingency communication plans have been developed to help mitigate the risk of disruption to key third party supplier contracts in resolution.

Service catalogue and service mapping	HSBC has a service catalogue and service mapping capability which together would help provide rapid access to the information needed to identify potential risks to operational continuity resulting from entry into resolution. These capabilities would also help to develop the BRP. The service catalogue contains important service information including contractual data, service descriptions, customer obligations and charging metrics. As part of the RAF, we have expanded the scope of the service catalogue to include additional entities, services provided between material entities, and services provided 'within' entities. HSBC's service mapping capability maps operational dependencies between suppliers and material operating bank subsidiaries, underlying operational assets to services, and services to products, critical functions and core business lines.
Contractual resilience	HSBC has included contractual terms in certain critical operational contracts to prevent a number of resolution related trigger events from giving counterparties the option to terminate, and to help to ensure the continuity of service provision to support restructuring.

Continuity of access to FMIs

HSBC is expected to be able to take all reasonable steps available to facilitate continued access to FMIs through resolution (recognising that the providers of these services may retain a degree of discretion over their ability to terminate a firm's membership). Our key capabilities include:

FMI contingency plans	Material entity level contingency plans have been created that set out our key arrangements around, and risks to, the continuity of access to key FMIs. The plans describe the potential actions FMIs could take, acknowledging the broad discretionary rights that FMIs typically have under their membership rules, and set out appropriate mitigating actions that HSBC may take in response. Tailored contingency communication plans have been developed to help mitigate the risk of disruption to key third party FMI service providers in resolution. HSBC will undertake further analysis in respect of FMIs that are not critical to its business (non-critical FMIs) to help mitigate any potential risk to resolution. This analysis is expected to improve the information and data HSBC has in relation to its non-critical FMI relationships, and identify whether potential actions taken by them would impede an orderly resolution. This work is expected to be completed by June 2023.
FMI funding	Together with HSBC's funding in resolution capabilities, we have the ability to estimate changes in FMI funding and liquidity requirements that may arise from financial stress and recovery or resolution scenarios for material entities.

Third party contingency arrangements	Key operating bank subsidiaries in the HSBC Group rely on our bank situated in the US for clearing US dollars. The ability to clear US dollars is a key part of our business model. Therefore, HSBC has established alternative contingency arrangements with third-party banks to ensure that we could still clear US dollars in the event that our US bank is unable to do so, including due to severe stress and/or resolution.

Continuity of Financial Contracts

HSBC is expected to suitably address the risk of early termination of financial contracts upon entry into resolution to limit any impact on its financial stability and the wider financial system. Our key capabilities include:

Contractual terms	In accordance with various contractual recognition requirements, such as the PRA Stay Rules[17], HSBC has included specific terms within certain of its financial contracts[18] to ensure that the occurrence of any resolution related trigger events would not give counterparties the right to terminate them. HSBC has built a reporting system that provides information detailing which financial contracts (and their related exposures) fall within a relevant statutory stay regime or have been subject to separate contractual agreement. Tailored contingency communication plans have been developed to help mitigate the risk of disruption to key financial counterparties in resolution.

Restructuring planning

HSBC is expected to have the ability to plan and execute restructuring effectively and on a timely basis in the event of resolution, taking into account the objectives applicable to its resolution strategy. Our key capabilities include:

Management actions	In order to augment the measures identified as management actions in the recovery phase, additional restructuring options have been developed which could be taken to restore the HSBC Group to viability in the event of resolution. These options are supported by detailed qualitative and quantitative analysis to underpin their credibility and promote timely execution if required.
BRP	HSBC has created a process to develop a BRP during the pre-resolution contingency planning phase leading up to resolution, and immediately following the resolution weekend. The BRP would be submitted to the BoE within one month of entry into resolution, setting out our plan to restructure the HSBC Group to address the causes of failure and return HSBC to a viable go-forward business. This process is documented in a runbook and supplemented with a BRP template which

[17] Set out in Supervisory Statement SS42/15 *Contractual stays in financial contracts governed by third-country law*, November 2015. In some jurisdictions the requirements are subject to a phased implementation.
[18] The financial contracts in scope are those generally entered into by our Global Markets business. They typically include securities contracts, commodities contracts, forwards contracts, swap agreements and contracts documenting derivatives. The financial contracts in scope can vary by jurisdiction where statutory stays powers and contractual recognition requirements have been implemented. See the PRA Stay Rules by way of example.

	sets out the structure of the document with certain sections maintained in a pre-populated state where possible.
Prior M&A experience	The HSBC Group has completed over 100 full entity and asset/liabilities disposals worldwide over the past ten years, and therefore already has significant experience in managing the execution of disposals with processes and documents in place to support disposal transactions.
Deep restructuring	To support our resolution planning capabilities, the Board and HSBC senior management are engaged in the process of performing a deep dive analysis of deep restructuring actions which could potentially be required in certain resolution scenarios. This work will continue at least until the end of 2022 and will include an assessment of the actions required to restructure IT applications and data, and shared operational services. It is expected that this assessment may identify some preparatory actions which could be undertaken to facilitate an orderly restructuring within a reasonable timeframe in the event of a resolution. Given the complexity, these actions will potentially be executed over a multi-year period.
Service provision for restructuring	HSBC has the capability to provide analysis on operational dependencies and costs across the HSBC Group, which would support the development of a BRP. We have enhanced our framework and methodology for transitional services agreements, in the context of divestments, to support the delivery of operational services at scale.

5.3.3. Outcome 3: Co-ordination and communication

HSBC is expected to ensure that it is able to coordinate and communicate effectively with all its stakeholders (both internally and with external stakeholders such as the authorities and markets) to ensure an orderly resolution and restructuring. Effective coordination and communication is key for HSBC given its scale, operational complexity and geographic reach and we have taken significant steps to build and improve our capabilities to help achieve this outcome.

To support this outcome, HSBC’s key responsibilities in resolution comprise:

- ensuring that HSBC’s key job roles are suitably staffed and incentivised during the execution of a resolution, with involvement from HSBC’s Group-level Remuneration Committee;
- ensuring that HSBC’s governance arrangements provide effective oversight and timely decision making; and
- ensuring that HSBC delivers timely and effective communications through resolution and restructuring.

The key capabilities that underpin HSBC’s ability to discharge these responsibilities are set out below.

Retention of key people	A new methodology has been created and applied to ensure the appropriate identification of key roles in resolution. This approach includes identification of actions and activities material to resolvability, and takes into account the significance and non-substitutability of key roles. Retention and succession planning policies and processes have been reviewed and enhanced where necessary to help ensure that they would support a potential resolution.
Governance framework	A specific governance framework has been designed to facilitate the implementation of the resolution objectives determined by the BoE and/or other resolution authorities. The framework is aligned with HSBC's existing governance structures in business as usual and the recovery phases and considers active engagement with home and host resolution authorities. The framework incorporates a dual governance structure comprised of dedicated governance structures at a legal entity level and governance structures aligned to resolution capabilities to support central decision making at Group level. Although the framework is able to accommodate a bail-in administrator (BIA)[19] under a wide range of different roles, HSBC will be further developing this through scenario testing where the BIA acts in different capacities to demonstrate our capabilities are sufficiently flexible. The framework is supported by the resolution playbook (described in section 5.2 above), which sets out the key decisions and actions HSBC is required to take and support the authorities in taking, throughout each phase of the resolution timeline.
Communications	New capabilities have been developed and existing capabilities enhanced to ensure that HSBC is able to plan for and deliver communications in resolution. This includes a HSBC-wide resolution communications plan, supported by equivalent plans at the regional and legal entity level. Continuous communication with our regulators/resolution authorities and other stakeholders would be key to retaining their confidence and thereby ensuring the effective implementation of our restructuring plans. This HSBC-wide communications plan incorporates a matrix of internal and external stakeholders with whom it would be necessary to communicate during resolution, together with communications plans for each stakeholder group. It also includes a summary of HSBC's market disclosure obligations in resolution, an overview of communications governance arrangements, and an evaluation of communication infrastructure. In enhancing its communications in resolution capability, HSBC has leveraged its prior experience in executing communications plans in previous crises and structural change scenarios.

[19] It is envisaged that the BoE would appoint a BIA at the HSBC Holdings level to act on a HSBC Group-wide basis. Among its objectives, the BIA is expected to seek to ensure that statutory requirements/objectives are met in resolution groups and will exercise control from HSBC Holdings with that goal in mind.

6. HSBC’s resolution accountability and assurance

6.1. Senior level accountability

The Board has been actively engaged in and has overseen the development of HSBC’s resolvability capabilities. The Board and senior management are committed to maintaining and improving HSBC’s capabilities, resources and arrangements to manage stress and recovery and to facilitate an orderly resolution.

HSBC continues to invest considerable resources in strengthening its RRP and execution capabilities, and ensuring they are regularly tested with key outputs shared across relevant areas of the bank. As part of this investment, significant efforts will continue to be made to further embed resolution planning into our business-as-usual operations in order to help ensure the sustainability and operational readiness of HSBC’s resolvability capabilities.

HSBC is enhancing its RRP operating model by transitioning to a HSBC Group-wide operating framework that defines the governance, roles and responsibilities and operational processes required to sustain and improve our resolvability over time.

The main elements of the operating framework include the following principles:

- businesses and functions across HSBC are responsible for the maintenance of resolvability capabilities;
- the Global RRP Office is responsible for coordinating across businesses and functions to help ensure RRP requirements are met and that an appropriate level of readiness is maintained for each capability (including testing);
- accountable executives on the HSBC Group’s Executive Committee are responsible for maintaining resolvability capabilities;
- a governance model is in place for overseeing RRP capabilities;
- there is greater visibility of RRP by the HSBC Group Chairman’s Forum[20];
- there is better integration between both recovery and resolution planning; and
- resolvability capabilities continue to be embedded into HSBC’s Risk Management Framework.

6.2. Governance

As set out above, HSBC has created an enhanced governance model for overseeing recovery and resolution capabilities and associated regulatory submissions.

Consistent with this model, HSBC’s Self-Assessment was led by the Group Chief Financial Officer (who has been appointed as HSBC’s accountable executive with overall responsibility for RRP) and the Group Treasurer, supported by the senior management team responsible for resolvability, in particular the Group Head of Recovery and Resolution. Governance oversight took place at both a Group level and legal entity level, supported by second and third line of defence review (as set out in Section 6.3 below).

The Board approved the Self-Assessment as a fair and accurate representation of the HSBC Group’s capabilities, resources and arrangements to facilitate an orderly resolution. The Board of the ring-fenced HSBC UK Bank plc was

[20] The Chairman’s Forum is a monthly meeting attended by HSBC Group Board committee chairs, and the chairs of HSBC’s principal operating bank subsidiaries (as set out on page 231 of the HSBC Holdings Annual Report and Accounts 2021).

also asked to review the Self-Assessment and determined that the capabilities developed support the stability of HSBC UK Bank plc.

6.3. Three lines of defence

The development and enhancement of our resolution capabilities has been, and continues to be, subject to a three lines of defence review in line with HSBC's usual practices. The first line of defence comprises the risk and control owners responsible for designing and implementing HSBC's resolution capabilities. The second line of defence (2LOD), which is largely in HSBC's risk function, provides challenge and oversight of the work performed by the first line, from a risk management perspective. The third line of defence (3LOD) is HSBC's internal audit function, which provides independent assurance to management and our non-executive Risk and Audit Committees that our risk management, governance and internal control processes have been designed and are operating effectively.

Following its review, the 2LOD confirmed the Self-Assessment was an accurate reflection of the current state of our resolution capabilities, resources and arrangements.

The 3LOD monitored and provided assurance activities covering the Self-Assessment and related capabilities, including gap analyses and remediation plans, adequacy of the testing assurance framework, planned improvements, and HSBC's responses to regulatory feedback.

6.4. Testing

HSBC recognises the importance of continued testing to support the BoE, PRA and other resolution authorities in maintaining readiness for resolution. We have established a framework to test the effectiveness of our resolvability capabilities and to help ensure they would operate as intended in resolution.

Our Self-Assessment was tested using this framework, which comprised (i) testing individual resolution capabilities (ii) integrated scenario-based testing and (iii) a 'fire drill' (live simulation) with the Board. A third party acting as a hypothetical independent valuer was also part of the testing process and provided added assurance over our valuations capabilities.

In addition to the testing and proving framework, HSBC has developed an overall testing strategy which sets out a clear approach to how capabilities are tested and how testing governance is managed. Where possible, this framework seeks to leverage existing stress testing capabilities within the HSBC Group to simulate adverse outcomes.

7. Further improvements to HSBC's resolvability

As part of the significant programme of work HSBC has undertaken in order to help ensure that it has the capabilities, resources and arrangements in place to support a potential resolution, HSBC and the BoE have identified that some areas require particular focus going forward in order to improve HSBC's resolvability capabilities. These areas will be improved under the oversight of the control framework described in section 6 that includes the Global RRP Office, 2LOD, 3LOD and ultimately the Board.

HSBC's RRP operating framework also requires us to consider how improvements that are being made as part of our business-as-usual operations could be applied to improve our RRP capabilities. As part of this review, HSBC has identified improvements to financial forecasting as a key area for further consideration.

HSBC considers that it has made substantial progress to improve its resolution capabilities. We are committed to making the further enhancements and improvements identified, working with our regulators and resolution authorities to achieve these objectives.

A summary of the key improvements that HSBC intends to make to its capabilities, resources and arrangements for resolution are set out below.

7.1. Resolution improvements: key areas of focus

Deep restructuring	As outlined in Section 5, HSBC is currently engaged in the process of performing a deep dive analysis of the actions required to execute deep restructuring actions, which could potentially be required in certain resolution scenarios. This work will continue at least until the end of 2022 and will include an assessment of the actions required to restructure IT applications and data, and shared operational services. It is expected that this assessment may identify some preparatory actions which could be undertaken to facilitate an orderly restructuring within a reasonable timeframe in the event of a resolution. Given the complexity, these actions would potentially be executed over a multi-year period. This work is overseen by a dedicated project committee comprising senior management and Board members and is subject to the governance and control framework set out in section 6.
Funding in resolution	HSBC plans to improve its capabilities to produce resolution specific liquidity analysis, including that which identifies and projects the availability of collateral balances in resolution. Enhancements to improve the speed and automation of liquidity analysis are largely expected to be delivered in 2022, with some remaining work planned for subsequent years. Capabilities for mobilising securities and loan collateral will be developed in 2022 and 2023 to help improve their automation and flexibility. This will include the identification of eligible loan collateral (both for central bank and other third party

	liquidity facilities), operational processes to mobilise collateral and reporting of available capacity. Delivery of the enhancements will be overseen by the Global Liquidity Management Meeting.
Continuity of access to FMIs	HSBC will undertake further analysis in respect of FMIs that are not critical to its business (non-critical FMIs) to help mitigate any potential risk to resolution. This analysis is expected to improve the information and data HSBC has in relation to its non-critical FMI relationships, and identify whether potential actions taken by them would impede an orderly resolution. This work is expected to be completed by June 2023 and will be performed under the existing control framework.
Other areas of further enhancement	Through its ongoing work on resolvability, HSBC plans on making further enhancements in the following areas: • Enhancing the granularity of data to support its valuations and the flexibility of models so they can adapt to different scenarios and produce sensitivity analysis of the inputs and assumptions used for the insolvency counterfactual valuation; and • Developing and updating the Management, Governance & Communications framework through the use of scenario testing where the BIA is acting in different capacities.

As set out in Section 5, HSBC has a portfolio of legacy TLAC/MREL securities which it continues to review in the context of its resolvability.

7.2. Connection to wider improvements being undertaken by the HSBC Group

HSBC and its regulators and resolution authorities require granular forecasts (including capital and liquidity) and sensitivity analysis to inform their decision making throughout any stress continuum. HSBC plans to further enhance its liquidity and capital forecasting capabilities as part of wider forecasting improvements planned across the Group, which will also help ensure we meet the level of granularity, precision and timeliness that would be expected in the run up to, during and post resolution.

7.3. Operational continuity in resolution (OCIR)

HSBC is implementing the PRA's new OCIR requirements that must be delivered by 1st January 2023[21]. The HSBC Group has already established comprehensive OCIR capabilities in line with existing OCIR policy[22] and in order to meet expectations under the RAF. The scale of activity required to comply with the new requirements is incremental and work has already commenced.

Other resolution authorities are developing similar requirements and HSBC will continue to work with relevant authorities to comply with applicable resolution standards in respect of OCIR, and more broadly in respect of resolution planning.

[21] As set out in the PRA's Operational continuity in resolution: Updates to the policy (PS9/21), published on 28 May 2021.
[22] As set out in the PRA's Supervisory Statement SS9/16 *Ensuring operational continuity in resolution*.

Cautionary statement regarding forward-looking statements

This report contains both historical and forward-looking statements. All statements other than statements of historical fact are, or may be deemed to be, forward-looking statements. Forward-looking statements may be identified by the use of terms such as “may”, “will”, “should”, “expect”, “anticipate”, “project”, “plan”, “estimate”, “seek”, “intend”, “target”, “believe”, "potential" and "reasonably possible" or the negatives thereof or other variations thereon or comparable terminology. These forward-looking statements include statements that relate to, among other things, our resolution strategy (including our expectations and projections regarding the implementation and execution of that strategy), our capabilities, resources and arrangements for resolution (including those regarding loss absorbing capital, valuations, funding, liquidity, operational continuity, restructuring, coordination and communication) and our commitments, plans and objectives to enhance our resolvability. Many of such forward-looking statements involve significant assumptions and subjective judgements which may or may not prove to be correct. This includes assumptions and judgments about the actions of regulators, creditors, depositors, investors, FMIs and counterparties in the event that HSBC is placed into resolution and statutory resolution powers are applied to implement a resolution transaction. The assumptions and judgments may prove to be incorrect and involve known and unknown risks, uncertainties, contingencies and other important factors, many of which are outside the control of HSBC. The information in this communication is not binding on a bankruptcy court, HSBC’s regulators or any other resolution authority, and the scenarios, strategies and transactions that we describe and the assumptions that we make herein are hypothetical and do not necessarily reflect events to which we are or may become subject. In the event of the resolution of HSBC, the strategies implemented by HSBC and our regulators could differ, possibly materially, from what is described herein. Any such forward-looking statements are based on the beliefs, expectations and opinions of HSBC at the date the statements are made and readers are cautioned not to place undue reliance on any forward-looking statements. There can be no assurance that any of the matters set out in forward-looking statements will actually occur or will be realised or are complete or accurate. HSBC undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

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