



Morgan Stanley European Financials Conference

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Introduction

- Why Financial Reform Matters
- Reshaping HSBC for the New World
- Cautiously optimistic about the future

An uncertain environment

- Today's Economic Challenges are Immense; Solutions neither Obvious or without Risk
- Future Generations will judge with hindsight
- Not an easy economic environment within which to promote change

Anxieties are obvious

- Eurozone
- Fiscal imbalances
- Healthcare and pensions
- Austerity vs Stimulus
- Inequalities within and between generations



How to restore confidence?

- Actions to restore confidence will be unpopular
- Risks of protectionism
- 'Line of Least Regret'
 - Why did you do nothing to prevent another crisis?
 - Why did you turn the system upside down at huge cost when nothing has happened



A lot has been achieved

- Risk calibration and loss absorbency
- Macro-prudential tools
- Prevented recurrence of the excesses of the last crisis
- Better understanding of systemic consequences
- Identified need for better cross-border resolution
- Many more buffers

The benefits from regulatory reform success are worth stretching for

■ Epicentre of regulatory debate is moving from design to implementation

- Is it time to call a halt to fresh initiatives?
- Or are further challenges being identified?
 - Gaps in coverage/shadow banking?
 - Is the reform agenda coherent/consistent
 - Impact on global activities?
 - Have we changed behaviour as opposed to metrics?



What are the risks?

- Risks of promising more than can be delivered
- Multiple inconsistencies and contradictions in the objectives being set
- Dangers of herd momentum towards de-risking

Lessons learned include

- No such thing as a risk-free asset
- Models are fallible
- Cross border risk is problematic
- Technological progress increased correlation between markets
- Risk distribution and systemic interconnectedness are two sides of the same coin
- Market signals may be misconstrued
- Sovereigns and financial institutions are co-dependent
- Free trade creates imbalances
- Markets can move faster than policy makers can respond
- Reducing indebtedness without cutting spending is difficult
- Warning about economic risks can constrain investment

The outstanding issues still in discussion and contemplation are hugely significant

On top of this we enter a period of a very different regulatory framework

- Twin peaks within the Bank of England
- Financial Policy Committee
- European banking Authority

Preparing HSBC for an uncertain world

- Management team is in place
- Simplify the Group by eliminating non-core and sub-scale businesses
- Cost efficiency – organisational design and delayering
- Building a sustainable model for allocating capital generated
- Preserving balance sheet strength
- Concentrating on connecting markets
- Prioritise growth markets

■ And finally –
Where we need to go.

Focus on what we want the system to do rather than aggregate avoidance regulation