

HSBC's approach to tax

Introduction

The UK Tax Strategy for HSBC Holdings plc and subsidiaries, as required under Schedule 19 FA2016, is set out below for the year ended 31 December 2017. Ultimate responsibility for this Tax Strategy rests with the Board of HSBC Holdings plc.

Approach to Tax Risk Management

HSBC seeks to apply the spirit and the letter of the law in all territories where we operate. We have adopted the UK Code of Practice for the Taxation of Banks. Tax risk is managed in accordance with HSBC's Operational Risk Management Framework ("ORMF"). The ORMF defines minimum standards and processes, and the governance structure for the management of operational risk and internal control. The ORMF has been codified in a high-level standards manual, supplemented with detailed policies, which describes our approach to identifying, assessing, monitoring and controlling operational risk and gives guidance on mitigating action to be taken when weaknesses are identified.

Responsibility for minimising operational risk lies with all HSBC employees. Specifically, all staff are required to manage operational risks, including tax risks of the business and operational activities for which they are responsible.

The Tax Risk Management Framework ("TRMF") is part of the ORMF and covers five key risks:

- **Tax Reporting** – misstatement of tax assets, liabilities and disclosures in the financial statements, regulatory returns and other external reports eg CRDIV Country by Country Report.
- **Tax payments** – failure to withhold, charge or pay taxes.
- **Tax compliance** – failure to report and file accurate tax returns including customer information.
- **Tax avoidance** – HSBC enters into transactions on its own account or promotes products and services to customers that are not consistent with the spirit of the law (tax avoidance).
- **Tax evasion** – HSBC allows customers to use its services to evade tax.

HSBC manages the five key tax risks by:

- identifying the risks;
- ensuring that the right controls are in place to prevent, manage and reduce risk;
- setting policy and guidelines for managing tax risks;
- providing support and guidance to staff to support the above policies; and
- employing an experienced, professionally qualified in-house tax team. Our in-house team is supported by advice from external advisers whenever in-house expertise is not available.

Global Internal Audit is responsible for providing independent assurance that HSBC is managing tax risk effectively.

Risk appetite in relation to taxation

HSBC does not have any appetite for breaching tax laws or allowing customers to use its services to evade tax.

Tax Planning

HSBC will use tax incentives or opportunities for obtaining tax efficiencies where these:

- are aligned with the intended policy objectives of the relevant government; and
- are aligned with business or operational objectives.

HSBC does not undertake transactions whose sole purpose is to abuse the tax system or otherwise employ tax avoidance strategies, for example by artificially diverting profits to low tax jurisdictions.

Approach to Dealings with Tax Authorities

HSBC seeks to maintain an open and transparent relationship with HMRC and other tax authorities by:

- keeping them informed of business activities and key developments as they arise and proactively disclosing issues;
- responding to their questions and enquiries in a timely manner;
- engaging on consultations relating to emerging legislation either directly or via industry bodies; and
- meeting with them regularly to maintain our relationship