

HSBC Holdings plc

Resolvability Assessment Framework – our readiness for resolution

6 August 2024

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A guide to this report

This report is organised into seven sections:

1. **Executive summary**

Summarises how HSBC meets the resolvability outcomes set out in the Bank of England (BoE)'s Resolvability Assessment Framework (RAF).

2. **About the UK Resolution Regime and this report**

Provides background on the purpose of resolution and the RAF.

3. **HSBC Group structure**

Summarises the structure of the HSBC Group and structural aspects that help facilitate an orderly resolution.

4. **Resolution strategy**

Summarises HSBC's preferred resolution strategy.

5. **Implementing the resolution transaction**

Provides a summary of the capabilities, resources and arrangements in place to support a potential resolution of HSBC and how they help achieve the resolvability outcomes set out in the RAF.

6. **HSBC's resolution accountability, governance and assurance**

Summarises the senior level accountability for HSBC's assessment of its preparations for resolution, and the governance model that applies to the oversight and implementation of its resolution capabilities, resources and arrangements.

7. **Continuous improvement to HSBC's resolvability**

Describes the improvements that HSBC is planning to make to its resolution capabilities, resources and arrangements.

Presentation of information

The information set out in this report has a reference date of 31 December 2023 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 plc 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, resources and arrangements¹ 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 RAF². 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.

The BoE has continued to develop its approach to resolution, incorporating learnings from events such as the resolution of Silicon Valley Bank UK in 2023. This has included a focus on the operational readiness of resolution tools, and the practical application of resolution powers³.

As a global systemically important bank (G-SIB) with approximately 42 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 potential future crises.

HSBC demonstrated that it met the three RAF outcomes in its first self-assessment which it submitted to the BoE in 2021 and subsequently summarised in its public disclosure in 2022. Since 2022, HSBC has made significant progress in developing and embedding its capabilities. This second self-assessment demonstrated improvements which directly addressed areas previously identified by the BoE as requiring further work in its 2022 statement. Key examples include the further automation of liquidity analysis and reporting processes, updates to meet the revised Operational Continuity In Resolution (OCIR) policy (SS4/21) and the development of a deep restructuring⁴ playbook (see section 5). This report is a summary of HSBC's second self-assessment.

Alongside this report, the BoE will communicate publicly its updated assessment of HSBC's resolvability and the resolvability of other firms that are subject to the RAF. We welcome the BoE's acknowledgement of the progress HSBC has made to address the shortcomings previously identified.

¹ Summarised to 'capabilities' in this document

² See <https://www.bankofengland.co.uk/financial-stability/resolution/resolvability-assessment-framework>

³ See [bankofengland.co.uk/-/media/boe/files/speech/2023/december/the-weekend-starts-here-speech-by-dave-ramsden.pdf](https://www.bankofengland.co.uk/-/media/boe/files/speech/2023/december/the-weekend-starts-here-speech-by-dave-ramsden.pdf)

⁴ Deep Restructuring is used to refer to any action or combination of actions which would include the separation or wind-down of major legal entities.

HSBC's key capabilities to meet the three RAF outcomes include:

Outcome 1: Adequate financial resources

- ◆ US\$ 270bn of total loss-absorbing capital on a Group consolidated basis to help recapitalise HSBC in the context of resolution. This represents 31.6% of risk-weighted assets (RWAs)⁵ on a Group consolidated basis.
- ◆ US\$ 795bn⁶ of high-quality liquid assets (HQLA) and a Liquidity Coverage Ratio (LCR) of 136% on a Group consolidated basis to help provide liquidity to our operating banks in the context of resolution.
- ◆ 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 critical financial market infrastructure (FMI) such as 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.
- ◆ 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 a new methodology, with enhanced plans supporting 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 capabilities we have built continue to improve our day-to-day financial and operational resilience and, in doing so, help support our ability to serve our customers.

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

⁵ US\$ 269.9bn represents the HSBC Group's consolidated MREL/TLAC as at 31st December 2023. 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>

⁶ As at 31st December 2023. Note that, of the US\$ 795bn, US\$ 147bn 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 2023 for further information.

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 economic 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.

The HSBC Holdings Board (Board) continues to be engaged and oversees the development of HSBC's resolvability capabilities. The Board's oversight has been supported by a risk management 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, and other senior management, has also taken part in live simulations to help provide assurance that HSBC's resolution capabilities could operate as intended.

Since 2022, HSBC has continued to invest considerable resources into strengthening its recovery and resolution planning (RRP) capabilities. In addition to improvements delivered, all resolution capabilities have been successfully transitioned to accountable businesses and functions. HSBC has a dedicated team (the Global RRP Office) that 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). HSBC is committed to continuously improving its resolvability capabilities, this includes improvements in three key areas where it believes further development is required based on internal review and challenge and those identified by the BoE as part of its assessment of HSBC (see section 7).

We are pleased to present this summary of our continued 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. We remain committed to working with these partners to continue enhancing our preparedness for resolution.

2. About the UK Resolution Regime and this report

2.1. The purpose of resolution

As part of global reforms following the 2008/9 financial crisis, 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 in the event of a severe stress, supported by scenario testing, playbooks and governance arrangements. If recovery measures fail, then HSBC could be placed in resolution.

The purpose of resolution planning 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 functions⁷. In turn, HSBC is expected to have the capabilities to carry out its preferred 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 website⁸.

2.2. Resolvability Assessment Framework (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 website⁹.

2.3. Delivering RAF outcomes across the HSBC Group

To support the HSBC Group's preferred resolution strategy, HSBC has implemented 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 (see section 4).

⁷ 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.

⁸ <https://www.bankofengland.co.uk/financial-stability/resolution>

⁹ <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 42 million customers, total consolidated assets of US\$ 3.0tn across 62 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 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.

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).

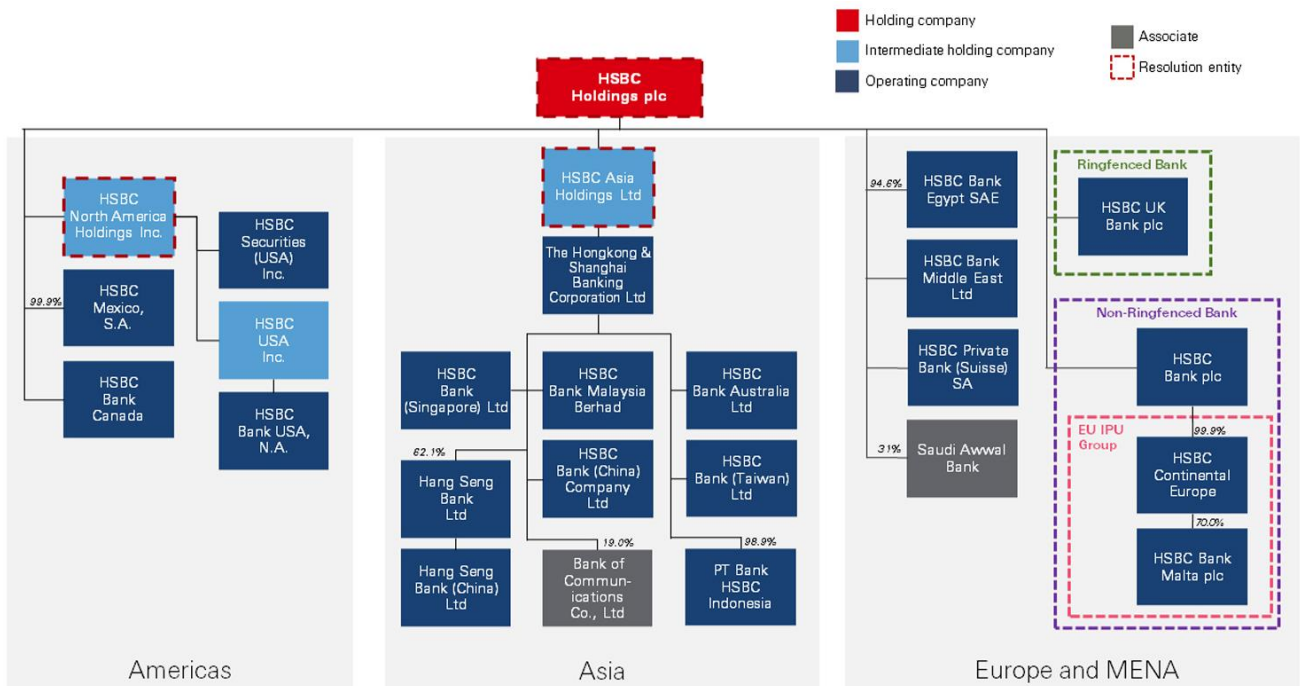
HSBC's global customer franchise and cross-border trade and capital flows help diversify its global banking franchise by bringing financial capital, resources and earnings to support the HSBC Group as a whole as we serve our customers' needs in local and global markets. This means HSBC has a globally interconnected business model, with its 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.

Given the geographical footprint of the HSBC Group, resolution authorities have determined that HSBC has three resolution groups that together account for 91% of total HSBC Group RWAs: the Asian 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 Chart¹⁰



3.2. Structural aspects that facilitate resolution

HSBC Holdings is the sole issuer within the HSBC Group of total loss-absorbing capacity (TLAC) or MREL¹¹ 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 Asian 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 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 operating 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 one or more HSBC operating banks be placed into resolution.

¹⁰ Simplified Structure Chart as at 31st December 2023. Showing entities in major markets and HSBC's resolution entities. HSBC Private Bank (Suisse) SA is consolidated into the Non-Ring Fenced Bank from February 2024. The sale of HSBC Bank Canada completed in March 2024 and so is no longer part of the HSBC Group.

¹¹ 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)¹². 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 payment and performance obligations owed to financial counterparties, vendors and other creditors. Retail and commercial counterparties 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 the HSBC 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-in¹³.

¹² 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.

¹³ *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 or operating banks for which they are responsible. This may occur, for example, in the event that host resolution authorities feel 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

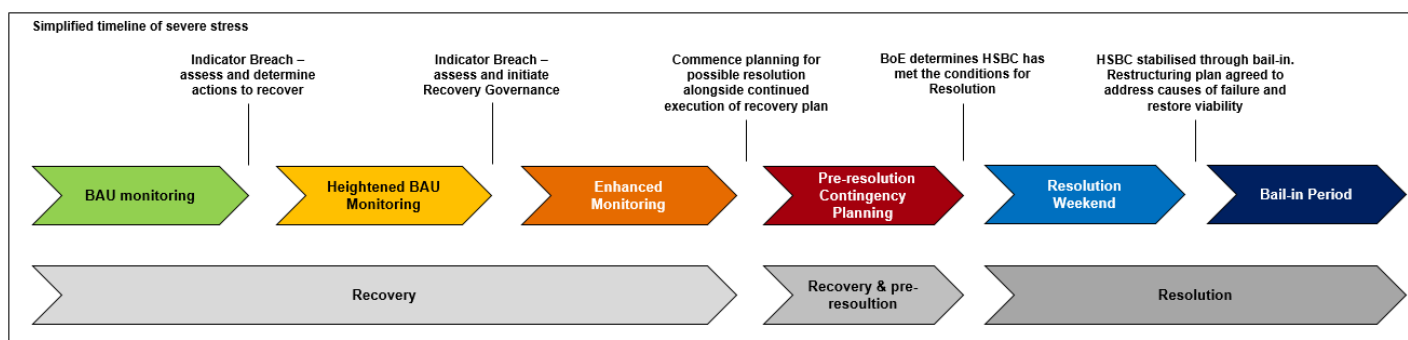
5.1. Prior to resolution: execution of the recovery plan and pre-resolution contingency planning

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 are forward-looking and include 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 Group Recovery Plan (GRP) establishes a set of capabilities to manage scenarios from business-as-usual through to stress, on to recovery and ultimately to the commencement of pre-resolution contingency planning. The GRP also sets out a range of credible 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 enhanced governance arrangements.

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 pre-resolution 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 (which is based on the BoE's Stylised Resolution Timeline) 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.

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 website¹⁴.

¹⁴ <https://www.bankofengland.co.uk/financial-stability/resolution>

HSBC’s capabilities 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. All resolution capabilities were tested as part of their implementation, and are assessed for further testing as part of annual resolution testing plans.

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, which has its own dedicated playbook) to resolution and 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. The resolution playbook has been tested through internal “fire drill” exercises involving Board members and executive management, and is supported by playbooks for key entity boards.

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 control.

A description of the key components of this outcome and the key capabilities that underpin HSBC’s ability to discharge these responsibilities is 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:

<p>US\$ 270bn of TLAC/MREL (31.6% of RWAs¹⁵)</p>	<p>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.</p>
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¹⁵ US\$ 269.9bn represents the HSBC Group’s consolidated TLAC/MREL as at 31st December 2023. 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>.

	<p>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 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. Since 2022, HSBC has taken specific actions to reduce this population of legacy TLAC/MREL securities.</p>
TLAC/MREL monitoring and forecasting	<p>Since 2022, HSBC has developed a TLAC/MREL database for all material HSBC legal entities, capturing key actuals data for external TLAC/MREL and has enhanced its monitoring and forecasting processes for capital and TLAC/MREL planning. This is being used to monitor, manage and report our capital and TLAC/MREL resources, enhancing the existing monitoring and forecasting processes.</p>
Execution of bail-in	<p>To support the execution of bail-in, HSBC has 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.</p>

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) analysis¹⁶. Our key capabilities include:

Valuation process	<p>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.</p> <p>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.</p> <p>Through the valuation processes, HSBC is able to produce:</p> <ul style="list-style-type: none"> • 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); • an updated five-year forecast business plan incorporating the impact of proposed restructuring actions across multiple scenarios; and
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¹⁶ The bail-in power is subject to the “no creditor worse off” safeguard, pursuant to which any shareholder or creditor which receives less favourable treatment in resolution than they would have had had the institution entered into insolvency may be entitled to compensation.

	<ul style="list-style-type: none"> an updated balance sheet on an insolvency valuation basis in 20 working days to inform the NCWO assessment (an insolvency counterfactual valuation).
Valuation models	<p>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.</p> <p>Since 2022, HSBC's forecasting capabilities have been subject to continued development. This has included data granularity improvements, increased precision of financial forecasts, and improvements to the flexibility of forecasting tools to account for different resolution scenario assumptions.</p>
Independent Valuer onboarding	<p>The BoE is required to obtain independent valuations when using statutory resolution tools. The valuations prepared by the independent valuer seek to ensure that the resolution actions taken are necessary and proportionate, and act as an important safeguard to creditors. To facilitate the onboarding of an independent valuer in the event of resolution, HSBC has developed its processes to enable onboarding and access to HSBC systems within 48 hours and prepared a granular results and data repository.</p>

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:

<p>US\$ 795bn¹⁷ of HQLA</p> <p>Group LCR of 136%</p>	<p>HSBC has a total stock of US\$ 795bn of HQLA held at entity level to provide liquidity to the operating bank subsidiaries.</p> <p>The HSBC Group's LCR is 136% 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.</p>
Liquidity analysis	<p>HSBC has analytical and reporting capabilities to model increased demands on liquidity arising in stress and resolution, including increased demands from FMIs in resolution, and to rapidly report spot positions and forecasts. Since 2022, tangible improvements have been made to T+1 reporting capabilities through increased focus on automation of manual processes. An intraday visualisation tool provides hub entities with real-time current and forecasted currency funding data, including granularity at a transactional level, to support intraday risk management.</p>
Liquidity and collateral management	<p>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.</p>

¹⁷ As at 31st December 2023. Note that, of the US\$ 795bn, US\$ 147bn 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 2023 for further information.

	<p>Since 2022, progress has been made on automation of manual processes, streamlining data sourcing of key attributes, and collateral evolution and visualisation through stress. Collateral remains a development area for HSBC, with further automation, data sourcing and the identification of legal and operational features that may limit the mobilisation of collateral subject to further work during 2024 and beyond.</p>
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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 FMs 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 resolution and restructuring;
- ◆ ensuring continued access to FMs 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 banking services.

A description of the key components of this outcome and the key capabilities that underpin HSBC’s ability to discharge these responsibilities is 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. During 2022 and 2023, HSBC further enhanced its OCIR capabilities to ensure it complies with the revised OCIR policy, SS4/21. The scope of services to which the OCIR capabilities apply has been extended to include critical services received from indirect FMI and other financial service providers. HSBC submitted the OCIR SS4/21 Compliance Report to the PRA in December 2022, which included updates to our key capabilities.

<p>ServCo Group</p>	<p>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.</p> <p>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.</p> <p>Tailored contingency communication plans have been developed to help mitigate the risk of disruption to key third party supplier contracts in resolution.</p>
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<p>Service catalogue and service mapping</p>	<p>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.</p> <p>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, and to services provided between and within material entities.</p> <p>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.</p>
<p>Contractual resilience</p>	<p>HSBC has included contractual terms in certain critical operational contracts to prevent resolution from giving counterparties the option to terminate, and to help to ensure the continuity of service provision to support restructuring.</p>

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:

<p>FMI contingency plans</p>	<p>Material entity level contingency plans have been created that set out our key arrangements around, and risks to, the continuity of access to critical 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.</p> <p>A communication framework has been developed to help mitigate the risk of disruption from FMI service providers in advance of and during resolution.</p> <p>Since 2022, HSBC has completed a comprehensive review of rulebooks, membership agreements and master/custody agreements for non-critical FMI (across RAF in-scope entities) to identify whether potential actions taken by them would impede an orderly resolution. These reviews will be maintained to ensure ongoing monitoring of these non-critical FMI relationships.</p>
<p>FMI funding</p>	<p>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.</p>
<p>Third party USD clearing arrangements</p>	<p>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</p>

	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.
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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	<p>In accordance with various contractual recognition requirements, such as the PRA Stay Rules¹⁸, HSBC has included specific terms within certain of its financial contracts¹⁹ to ensure that the occurrence of any resolution related trigger events would not give counterparties the right to terminate. Controls have been established to ensure new and existing in-scope financial contracts contain these terms.</p> <p>Since 2022, HSBC has built a monitoring and reporting system that provides information on stayed and non-stayed financial exposures for all in-scope financial contracts, specifically for those RAF in-scope entities that are subject to a local stay regime or contractual stay recognition requirements. This is an automated solution which aggregates market positions from in-scope entities on a 24-hour basis.</p> <p>Tailored contingency communication plans have been developed as part of the wider Communications capability to help mitigate the risk of disruption to key financial counterparties in advance of and during resolution.</p>
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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 the 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

¹⁸ 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.

¹⁹ 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	<p>HSBC has developed the capabilities necessary to identify, evaluate and plan for the execution of a range of restructuring strategies.</p> <p>A deep restructuring playbook has been developed to provide guidance on how to plan, implement and execute deep restructuring actions, while a process was designed to provide a view of the expected end state of each of the global business lines for the proposed action(s) and their ongoing viability.</p> <p>Furthermore, since 2022 analysis was conducted which concluded that the capabilities delivered through the deep restructuring playbook are applicable to support the execution of deep restructuring scenarios.</p>
Service provision for restructuring	<p>HSBC has the capability to provide analysis on operational dependencies and costs across the HSBC Group, which would support the development of a BRP.</p> <p>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.</p>

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;
- ◆ 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.

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

<p>Retention of key people</p>	<p>A methodology has been created and applied to ensure the appropriate identification of key roles in resolution.</p> <p>This approach includes identification of actions and activities material to resolvability, and takes into account the significance and non-substitutability of key roles.</p> <p>Retention and succession planning policies and processes have been reviewed and enhanced where necessary to help ensure that they would support a potential resolution.</p>
<p>Governance framework</p>	<p>A tailored 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.</p> <p>The framework anticipates dedicated governance roles and structures to support co-ordinated decision making at the Group level. This has been enhanced since 2022 in response to BoE feedback to include a bail-in administrator (BIA)²⁰ playbook which provides flexibility to support a BIA taking up various roles, noting that their roles may change and develop during the resolution period.</p> <p>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.</p>
<p>Communications</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>In enhancing its communications in resolution capability, HSBC has leveraged its prior experience in executing communications plans in previous crises and structural change scenarios.</p>

²⁰ 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 by the resolution groups and will exercise control from HSBC Holdings with that goal in mind.

6. HSBC's resolution accountability, governance and assurance

6.1. Senior level accountability

The Board is engaged in and has overseen the continued development of HSBC's resolvability capabilities. The Board and senior management are committed to maintaining and improving HSBC's capabilities 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 HSBC Group. Since 2022, significant efforts have been made to embed resolution planning into our business-as-usual operations in order to ensure the sustainability and operational readiness of HSBC's resolvability capabilities.

HSBC has implemented a Group-wide RRP operating model which defines the accountabilities, governance, roles and responsibilities and operational processes required to maintain and continuously improve resolvability capabilities.

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 businesses and functions to help ensure RRP requirements are met and that an appropriate level of readiness is maintained for each of the RAF capabilities (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 ongoing review and challenge of RRP by Group and legal entity boards;
- ◆ integration between both recovery and resolution planning; and
- ◆ embedding resolvability capabilities into HSBC's Risk Management Framework.

6.2. Governance

As set out above, HSBC has created a 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 Planning. Governance oversight took place at both a Group 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 to facilitate an orderly resolution. The Board of the ring-fenced HSBC UK Bank plc was 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 improvement 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, implementing and operating 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 of the self-assessment, the 2LOD confirmed the self-assessment continues to be an accurate assessment of our resolution capabilities.

3LOD conducts ongoing monitoring 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. The 3LOD has also undertaken specific audits on key capabilities to provide additional assurance on progress made since the first self-assessment in 2021.

6.4. Testing

HSBC recognises the importance of adopting a robust approach to testing in order to ensure that the Group's capabilities continue to meet the resolvability outcomes. The RRP testing framework formalises the approach for annual testing activities and has been in operation since 2022. This is a major focus for HSBC and provides confidence that the RAF capabilities can be relied upon to function both individually and in concert to support resolution.

The testing framework comprises: (i) testing individual resolution capabilities; (ii) integrated scenario-based testing; and (iii) 'fire drills' (live simulations) with the Board and other committees. A third party acting as a hypothetical independent valuer was also part of the testing process and provided added assurance over our valuations capabilities.

7. Continuous improvement to HSBC's resolvability

Since 2022, HSBC has continued its significant investment to embed and improve its resolution capabilities. This has included improvements which directly address areas identified by the BoE in its 2022 RAF public disclosure. In addition, HSBC is committed to continuously improving its resolvability capabilities. This includes three key areas based on internal review and challenge and those also identified by the BoE as part of its assessment of HSBC. All improvements are delivered under the oversight of the control framework described in section 6 that includes the Global RRP Office, 2LOD, 3LOD and ultimately the Board.

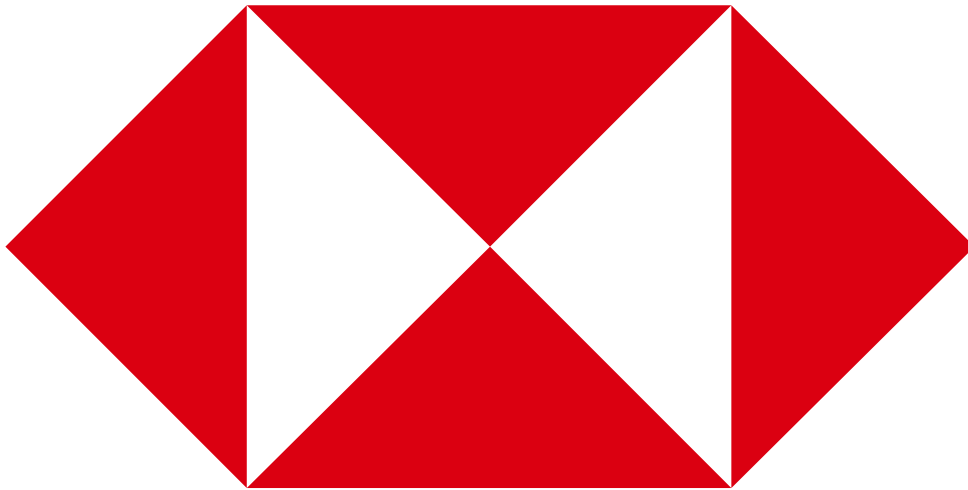
Continuing to embed resolution planning across the organisation is a key focus for HSBC. HSBC's RRP operating framework also requires us to consider how improvements that are being made as part of our business-as-usual operations could be applied to improve our RRP capabilities. As a complement to this, as we conduct further tests on the operational readiness of resolution capabilities, learnings are applied back to underlying processes and functions. Through these cycles we aim to continuously improve the effectiveness and efficiency of resolution capabilities across the organisation.

7.1. Resolution improvements: key areas for continuous improvement

Restructuring Planning	HSBC believes that while previously identified concerns have been addressed (see section 5.3.2), further development is required to embed deep restructuring capabilities and test assumptions in 2024. HSBC therefore has planned additional activity to conduct further analysis on deep restructuring scenarios.
Funding in resolution	HSBC believes that while previously identified concerns have been addressed (see section 5.3.1), further development is required in relation to 1) automation of liquidity forecasting and 2) collateral sourcing and the identification of legal and operational features as there is a risk this could impede collateral mobilisation. Plans are in place for the delivery of these improvements during 2024 and 2025.
Valuation in resolution	HSBC believes that all previously identified concerns have been addressed and planned enhancements delivered (see section 5.3.1), further development is required to continue embedding valuation capabilities and deliver enhancements identified through HSBC's assurance activities. Plans are in place for the delivery of these improvements during 2024.

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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