

Bank of England

Prudential Regulation Authority

WRITTEN NOTICE: IRB PERMISSION

To: HSBC Bank Plc (HBEU) - FRN 114216

8 Canada Square
London, E14 5HQ

HSBC UK Bank Plc (HBUK) - FRN 765112

1 Centenary Square
Birmingham, B1 1HQ

HSBC Holdings Plc (FRN: 203795), (“the holding company”)

8 Canada Square
London, E14 5HQ

Together “the addressees”.

Ref: 00006304 (HSBC Bank Plc)
00006305 (HSBC UK Bank Plc)

Date: 24 April 2023

DECISIONS

1. On December 31 2007 and on June 29 2018, HSBC Bank Plc and HSBC UK Bank Plc respectively were granted an IRB waiver under s138A of the Financial Services and Markets Act 2000 (the “Act”) by the Prudential Regulation Authority (“PRA”). In accordance with Waivers Transitional Provisions 2.1(2) of the PRA Rulebook HSBC Bank Plc’s IRB waiver took effect on 1 January 2014 as a permission granted by the PRA under Chapter 3, Title II, Part Three of Regulation 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (as it forms part of retained EU Law) (the “CRR”). The permission was carried over to HSBC UK Bank plc on 29 June 2018. The permission applied on the consolidated basis of HSBC Bank plc and HSBC UK Bank plc. On 20 December 2021, the holding company was approved by the PRA as a parent mixed financial holding company under section 192R(2) of the Act. In accordance with the discretions afforded to the PRA under Chapter 3, Title II, Part Three of the CRR, the addressees



have been granted the permission to calculate their risk weighted exposure amounts using the Internal Ratings Based Approach (“IRB Approach”) on the terms and conditions set out in Annex 1 and Annex 4 (the “IRB Permission”).

2. Further to regulations 34B and 35B of the Capital Requirements Regulations 2013 and an application made by each of HBEU and HBUK in accordance with section 55M(5) of the Financial Services and Markets Act 2000 (the “Act”) for certain requirements the PRA has decided to grant the requirements specified in Annex 2. The PRA expects the holding company to submit the information requested and meet the conditions set out in Annex 3.
3. If an addressee ceases to comply with the conditions for granting of this IRB Permission set out in Chapter 3, Title II, Part Three of the CRR, the terms of the IRB Permission set out in Annex 1, or any of the requirements set out in Annex 2, the PRA will re-consider the terms and conditions of the IRB Permission and the requirements relevant to it, including a revocation of the IRB Permission in whole or in part.
4. The IRB Permission with the requirements in Annex 2 takes effect on 24 April 2023. This written notice replaces the previous written notices: Reference 00002310/00002314 and 00002398/00002399, and 00006216/00006217.

PROCEDURAL MATTERS

5. If an addressee wishes to challenge the decisions taken by the PRA in relation to the IRB Permission, the firm may refer the matter to the Upper Tribunal.
6. Details of the IRB Permission and the related requirements sought or imposed under section 55M of the Act will be published on the Financial Services Register and Bank of England website. The full text of this Written Notice will not be published. However, in the interests of transparency, the PRA’s policy is to publish an abridged version of the permission notice as a record that the IRB permission has been granted.
7. Further details of procedural matters are contained in Annex 4.
8. Annex 5 sets out any previous versions of the permission granted by the PRA in connection with the IRB Permission.

Simon Dixon
Head of GSIBs

ANNEX 1

THE INTERNAL RATINGS BASED PERMISSION

Legal Entities

1. The IRB Permission means that each addressee may, for the legal entities listed below, on a solo, sub-consolidated and/or consolidated basis as indicated, use its own calculation of own funds requirements in relation to the exposures described in paragraph 2 of this Annex in accordance with Article 143(3) of the CRR:

a. HSBC Holdings Plc on its consolidated situation:

- (1) HSBC UK Bank Plc (HBUK)
- (2) HSBC Invoice Finance (UK) Limited
- (3) HSBC Equipment Finance (UK) Limited
- (4) HSBC Private Bank (UK) Limited
- (5) HSBC Trust Company (UK) Limited
- (6) John Lewis Financial Services Limited
- (7) Marks and Spencer Financial Services plc
- (8) Marks and Spencer Savings and Investments Limited
- (9) Marks and Spencer Unit Trust Management Limited
- (10) HSBC Global Asset Management (UK) Limited
- (11) HSBC Bank Plc (HBEU)
- (12) HSBC Asset Finance (UK) Limited
- (13) HSBC Investment Bank Holdings Limited
- (14) HSBC Continental Europe (HBCE)
- (15) HSBC Trinkaus & Burkhardt AG (HTDE)
- (16) HSBC Private Banking (Suisse) SA (PBRs)
- (17) HSBC Bank Malta plc (HBMT)
- (18) HSBC Bank Middle East (HBME)
- (19) HSBC Bank Egypt S.A.E (HBEG)
- (20) HSBC Bank Oman S.A.O.G (HBOM)
- (21) HSBC Bank Turkey AS Turkey (HBTR)
- (22) The Hong Kong and Shanghai Banking Corporation Limited (HBAP)
- (23) HSBC Bank (China) Company Limited (HBCN)
- (24) HSBC Bank Malaysia Berhad (HBMY)
- (25) HSBC Bank (Taiwan) Limited (HBTW)
- (26) PT Bank HSBC Indonesia (HBID)
- (27) HSBC Bank (Singapore) Limited (HBSP)

- (28) HSBC Bank Australia Limited (HBAU)
- (29) Hang Seng Bank Limited (HASE)
- (30) Hang Seng Bank (China) Limited (HACN)
- (31) HSBC Bank USA, NA (HBUS)
- (32) HSBC Finance Corporation (HBIO)
- (33) HSBC Bank Canada (HBCA)
- (34) HSBC Mexico SA, Institución de Banca Múltiple, Grupo Financiero HSBC (HBMI)
- (35) HSBC Bank Argentina S.A. (HBAR)
- (36) HSBC Bank (Chile) (HSBCCH)
- (37) HSBC Bank Bermuda Limited (HBBM)

And any other firm, within HSBC Group consolidation in accordance with Part One, Title II, Chapter 2 of CRR.

b. HBEU and HBUK, on an individual basis:

- (1) HSBC Bank Plc (HBEU)
- (2) HSBC UK Bank Plc (HBUK)

c. HBUK, on the basis of its sub-consolidated situation

- (1) HSBC UK Bank Plc (HBUK)
- (2) HSBC Invoice Finance (UK) Limited
- (3) HSBC Equipment Finance (UK) Limited
- (4) HSBC Private Bank (UK) Limited
- (5) HSBC Trust Company (UK) Limited
- (6) John Lewis Financial Services Limited
- (7) Marks and Spencer Financial Services plc
- (8) Marks and Spencer Savings and Investments Limited
- (9) Marks and Spencer Unit Trust Management Limited

- In accordance with Article 143(3) of the CRR, each addressee must calculate its risk-weighted exposure amounts for the categories of exposure identified in Table 1 of Schedule 1 (with the exception of the permanent exemptions and any exposures still subject to sequential implementation) using the IRB Approach, to the extent, in the manner and subject to the conditions set out in this IRB Permission, and in accordance with Table 1 in Schedule 1.

Ratings Systems

- Each addressee is permitted to use the ratings systems and internal models approaches to equity exposures (together the “Ratings Systems”) as specified in the documentation contained in the addressees’ IRB case files (reference ACTS34457, ACTS40915 and RWM D000005004) and D000001788 and D000006415) comprising its IRB application documentation, as modified by all changes and specifications notified to the addressee by the PRA, including those specified in this IRB Permission Notice, all changes and extensions notified by the addressee and accepted by the PRA, and all material changes and extensions for which permission has been granted by the PRA noted in Annex 5.

Permanent partial use

- Each addressee is permitted to apply the Standardised Approach for the exposures listed in Table 2 in Schedule 1 in accordance with art 150 of the CRR.

Reversion to the Standardised Approach under art 149

- Each addressee is permitted to revert to the use the Standardised Approach for the calculation of risk-weighted exposure amounts for the exposure classes or types of exposure where agreed with the PRA, as listed in Table 3 in Schedule 1.

Reversion to CRR art 151(8) LGD/Conversion factors under CRR art 149

- Each addressee is permitted to revert to the use of LGD and conversion factors referred to in CRR art 151(8) for the calculation of risk-weighted exposure amounts for the exposure classes or types of exposure listed in Table 4 in Schedule 1.

Sequential implementation

- Each addressee is permitted to implement the IRB Approach sequentially in accordance with the roll-out plan agreed with the PRA.
- Sequential implementation is subject to the following conditions:
 - a. Each addressee should inform the PRA as soon as possible should they think they are not able to roll out in accordance with the agreed plan; and
 - b. Each addressee should provide an updated version of its sequential implementation plan by September 30th of every year.

Treatment by exposure class

- Each addressee is permitted to use the approaches in Article 155(3) and (4) for equity exposures as set out in Table 1 of Schedule 1.
- Each addressee is permitted to use its own estimates of LGDs and conversion factors for the exposure classes as set out in Table 1 of Schedule 1.

Maturity under art 162 of the CRR

- To the extent that the addressee does not have permission to use own estimates of LGDs and conversion factors it shall calculate maturity as set out under CRR Article 162(2) and (3).

Definition of default

- 90 days is replaced with 180 days in CRR Article 178(1)(b) for exposures secured by residential property or SME commercial immovable property in the retail exposure class, as well as exposures to public sector entities.

Unfunded credit protection

- Each addressee may recognise unfunded credit protection by adjusting PD or LGD.

Eligible collateral

- Each addressee may use as eligible collateral types of physical collateral other than those indicated in paragraphs 2, 3 and 4 of Article 199 of the CRR where permission is or has been granted in accordance with paragraph 6 of Article 199.

Further specifications

- The addressees must comply with any floors or overlays as communicated by the PRA until changes to the relevant models are approved by the PRA, at which point these will fall away. The floors currently communicated by the PRA are:
 - (a) HBEU UK and HBUK corporate LGD models
 - Foundation approach;
 - (b) HBAP corporate LGD model
 - All LGDs to be floored at 35% except where the following collateral is used:
 - Hong Kong “commercial & residential property” & “other” collateral;
 - Malaysian “commercial & residential property” & “plant/equipment” collateral; and
 - Singapore “commercial property”.
 - Subordinated unsecured LGDs to be floored at 75%

Material, significant and other changes

- In accordance with Article 143(3), (4) of the CRR and Commission Delegated Regulation (EU) No 529/2014 (as it forms part of retained EU Law),

- (1) the addressees will require a further permission from the PRA in respect of the following changes to the IRB Permission:
- (a) material changes to the range of application of a ratings system or an internal models approach to equity exposures; or
 - (b) material changes to a ratings system or an internal models approach to equity exposures; and
- (2) the addressees must notify the PRA of all changes to ratings systems and internal models approaches to equity exposures subject to the IRB Permission.
- In accordance with Article 143(3) of the CRR, the PRA has granted permission for material changes as set out in Annex 4.

SCHEDULE 1

High level scope and coverage of IRB permission.

The PRA has granted the IRB permission for the categories and types of exposures identified in Table 1 below with the exception of the permanent exemptions in Table 2. Exposure classes that are not applicable to the firm[s] are marked N/A.

Table 1

<i>IRB exposure classes</i>	<i>Sub-classes (& art 155 approach, if applicable)</i>	<i>Country</i>	<i>Own estimates of LGDs and Conversion Factors (tick if apply)</i>	<i>Additional provisions/</i>
Exposures to central governments and central banks	All sub-classes defined in CRR article 147, paragraph 3.	All countries	✓	
Exposures to institutions	All sub-classes defined in CRR article 147, paragraph 4.	All countries	✓	
Exposures to corporates	Specialised lending as described in Article 147(8)	All countries	✓	Income Producing Real Estate which is subject to the slotting approach
	Other corporate	All countries	✓	
Retail exposures	Exposures fully and completely secured by mortgages on residential property	All countries	✓	
	Qualifying revolving retail exposures	All countries	✓	
	Retail SME	All countries	✓	
	Other Retail	All countries	✓	
Equity exposures	All sub-classes defined in CRR article 147, paragraph 6.	France	✓	
Securitisation positions	All	All countries	N/A	Treated according to hierarchy of methods in Article 254 including the use of the Internal Assessment Approach for ABCP (Article 265).
Non credit-obligation assets		All countries	N/A	

ANNEX 2

REQUIREMENTS RELEVANT TO THE IRB PERMISSION HBEU and HBUK HAVE APPLIED FOR AND THE PRA HAS IMPOSED UNDER S55M OF THE ACT

Reporting Requirements

HBEU and HBUK must comply with certain requirements under this IRB permission relating to the submission of certain information to the PRA.

Other Requirements

HBEU and HBUK must comply with certain other requirements under this IRB permission.

ANNEX 3

EXPECTATIONS RELEVANT TO THE IRB PERMISSION

Reporting Requirements

It is the PRA's expectation that the holding company will comply with certain requirements under this IRB permission relating to the submission of certain information to the PRA.

Other Requirements

It is the PRA's expectation that the holding company will comply with certain other requirements under this IRB permission.

ANNEX 4

PROCEDURAL MATTERS

Decision-Maker

1. The decision which gave rise to the obligation to give this Notice was made by the Head of Division of GSIBs by delegation from the Senior Risk and Policy Committee (SRPC).

Right to make representations

2. The addressees have the right to make representations to the PRA in relation to the IRB Permission.
3. If an addressee wishes to make written representations, it must do so by 8 May 2023 or such later date as may be permitted by the PRA. Written representations should be made to SRPC and sent to Matt Berger at the PRA, 20 Moorgate, London EC2R 6DA.
4. If any of the addressees wish to make oral representations, it should inform Matt Berger of that fact as soon as possible and in any event by no later than 8 May 2023. If the addressee does not notify the PRA by 8 May 2023, it will not, other than in exceptional circumstances, be permitted to make oral representations.

The Tribunal

5. The addressees have the right to refer the decision to grant the IRB Permission to the Upper Tribunal (the “Tribunal”). The Tax and Chancery Chamber is the part of the Tribunal which, amongst other things, hears references arising from decisions of the PRA. Under paragraph 2(2) of Schedule 3 of the Tribunal Procedure (Upper Tribunal) Rules 2008, the addressee has 28 days from the date on which this Written Notice is given to the addressee to refer the matter to the Tribunal.
6. A reference to the Tribunal can be made by way of a reference notice (Form FTC3) signed by the addressee and filed with a copy of this Written Notice. The Tribunal’s contact details are: The Upper Tribunal (Tax and Chancery Chamber), 5th Floor, Rolls Building, Fetter Lane, London EC4A 1NL (telephone: 020 7612 9730; email: uttc@justice.gov.uk). Further details are contained in “Making a Reference to the UPPER TRIBUNAL (Tax and Chancery Chamber)” which is available from the Tribunal website:
<http://www.tribunals.gov.uk/financeandtax/FormsGuidance.htm>.
7. The addressees should note that a copy of the reference notice (Form FTC3) must be sent to the PRA at the same time that a reference is filed with the Tribunal. A copy of the reference notice should be sent to Matthew Berger at the PRA, 20 Moorgate, London EC2R 6DA.

PRA contacts

8. For more information concerning this matter generally, the firm should contact Matthew Berger on [020 34618269].

ANNEX 5

VERSION CONTROL SCHEDULE

NOTICES OF MATERIAL CHANGES AND EXTENSIONS TO IRB PERMISSION

Version	Comment	Authorisation	Date
1.0	Retail IRB and Advanced IRB direction issued	Tom Anderson, FSA	24/12/2007
2.0	IRB direction varied by insertion of: <ul style="list-style-type: none"> • BIPRU 9.12.20R in Paragraph 5.1; and • Paragraph 5 and 6 in Schedule 2 for use of the ABCP <i>internal assessment approach</i> 	Tom Anderson, FSA	31/12/2007
3.0	HSBC was given permission to make a material change to the permission.	Rebecca Jackson, PRA	14/10/2011
4.0	HSBC was given permission to make a material change to the permission.	Melanie Beaman, PRA	25/08/2015
5.0	HSBC was given permission to make a material change to the permission.	Reehana Anwar, PRA	29/02/2016
6.0	HSBC was given permission to make a material change to the permission.	Melanie Beaman, PRA	29/06/2016
7.0	HSBC was given permission to make a material change to the permission.	Melanie Beaman, PRA	05/10/2016
8.0	HSBC was given permission to make a material change to the permission.	Melanie Beaman, PRA	21/08/2017
9.0	HSBC was given permission to make a material change to the permission.	Melanie Beaman, PRA	01/11/2017
10.0	HSBC was given permission to make a material change to the permission.	Melanie Beaman, PRA	13/02/2018
11.0	Variation of permission to include HSBC Bank UK Plc in the IRB Permission and repapering into CRR compliant written notice.	Stephanie Courtin (Acting HoD)	29/06/2018
12.0	HSBC was given permission to make a material change to the permission.	Simon Morley, PRA	14/01/2019
13.0	Ex-ante notification of the transfer HSBC Private Banking Holdings (Suisse) SA's ("PBSU") A-IRB License to HSBC Private Banking (Suisse) SA ("PBRs").	Not Applicable	28/06/2019
14.0	Variation of permission to include UK sub-consolidation and amendment of the Permission.	Russell Jackson, PRA	06/01/2021
15.0	Permission granted to the holding company on a consolidated basis.	SPRC	20/12/2021
16.0	HSBC was given permission to make a material change to the permission. Holding company notice merged with notices to HSBC Bank Plc and HSBC UK Bank Plc.	Simon Dixon, PRA	30/03/2023
17.0	HSBC was given permission to make a material change to the permission.	Simon Jackson, PRA	24/04/2023
18.0	HSBC was given permission to make a	Simon Jackson, PRA	24/04/2023

	material change to the permission.		
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