January 29, 2018

Patrick J. Burke
HSBC Holdings plc
452 Fifth Avenue, 5th Floor
New York, NY 10018

Dear Mr. Burke:

The Board of Governors of the Federal Reserve System (the Board) and the Federal Deposit Insurance Corporation (the FDIC) (together, the Agencies) have reviewed the annual resolution plan submission that HSBC Holdings plc (HSBC, or the firm) submitted in December 2015, as required by section 165(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act,[1] and the jointly issued implementing regulation (the Resolution Plan Rule).[2]

The Agencies are jointly issuing this letter to clarify expectations for the resolution plan required to be submitted on or before December 31, 2018 (2018 Plan).[3] HSBC must comply with the Resolution Plan Rule requirements and may do so for its 2018 Plan by submitting information that is responsive to and consistent with this letter by December 31, 2018.

[1] 12 U.S.C. § 5365(d).
[2] 12 CFR Part 243 (Board) and 12 CFR Part 381 (FDIC).
[3] Pursuant to a letter to HSBC dated August 8, 2017, the Agencies have extended the date for the next resolution plan submission to December 31, 2018.

Previously provided guidance continues to be applicable, except to the extent that it is superseded or supplemented by the provisions of this letter.

Stress Scenario: The 2018 Plan should assume that the Dodd-Frank Act Stress Test (DFAST) severely adverse scenario for the first quarter of 2018 is the domestic and international economic environment at the time of HSBC's entry into resolution and throughout the resolution process. The 2018 Plan should also discuss any changes to the resolution strategy under the adverse and baseline scenarios to the extent that these scenarios reflect obstacles to a rapid and orderly resolution that are not captured under the severely adverse scenario. The 2018 Plan should address a scenario in which the U.S. operations experience material financial distress, the foreign parent is unable or unwilling to provide sufficient financial support for the continuation of U.S. operations, and at least the U.S. intermediate holding company files for Chapter 11 bankruptcy.

Organizational Structure: HSBC should describe any changes it has made to its resolution plan resulting from HSBC's implementation of the intermediate bank holding company requirement of Regulation YY (12 CFR § 252.153). In particular, HSBC should address subsections __.4(e) and __.4(g) of the Resolution Plan Rule.

Capital

HSBC should have a methodology for periodically estimating the amount of capital that may be needed to support each U.S. material entity through the resolution period. The methodology is not required to produce aggregate losses that are greater than the amount of total loss-absorbing capacity, or TLAC, that would be required for HSBC under the Board's final rule.[4] The 2018 Plan should provide an explanation of the methodology used for this analysis.

[4] 82 FR 8266 (January 24, 2017).

If HSBC continues to assume an infusion of capital by the foreign parent into its U.S. operations immediately prior to the runway period, the 2018 Plan should describe the governance processes leading to and concluding in such an infusion and the potential obstacles thereto.

Liquidity Capabilities

HSBC should describe in the 2018 Plan a comprehensive understanding of funding sources available to its U.S. material entities and critical operations, including the uses of and risks to such funding and how funding sources may be affected under stress. For example, with respect to its U.S. material entities, HSBC should have and describe its capabilities to:

- Evaluate the funding requirements necessary to perform the payments critical operation, including shared and outsourced services and access to financial market utilities (FMUs);[5]
- Monitor liquidity reserves and relevant custodial arrangements by material entity;[6] and
- Routinely test funding and liquidity outflows and inflows for U.S. material entities at the legal entity level under a range of adverse stress scenarios, taking into account the effect on intraday, overnight, and term funding flows between affiliates and across jurisdictions.

Payment Clearing and Settlement Activities

HSBC should continue to develop its playbooks related to continued access to payment, clearing, and settlement (PCS) activities necessary to support the payments critical operation in a manner that would support an orderly resolution under its U.S. strategy. HSBC should quantify and explain how it would satisfy its relevant obligations and exposures associated with PCS activities. HSBC should use volume and value data for each FMU to identify the key FMUs for the payments critical operation and describe this analysis in the 2018 Plan. HSBC should describe arrangements to facilitate continued access to all of these key FMUs, including

[5] 12 CFR 252.156(g)(3).
[6] 12 CFR 252.156(g)(2).

operational and liquidity considerations and contingency arrangements. Bearing in mind the objective of an orderly resolution, HSBC's analysis of contingency arrangements should include, but not be limited to, pre-positioning of additional liquidity at FMUs, limiting intraday credit provisions to clients, and requiring clients to pre-fund settlement activity, as appropriate. HSBC should provide clients with transparency into the potential impacts from implementation of the contingency arrangements and consider whether additional actions are appropriate to facilitate continued access to key FMUs.

HSBC should have and describe its ability to assess, for each U.S. material entity, obligations and exposures associated with PCS activities related to the payments critical operation, including contractual obligations and commitments. For example, HSBC should be able to:

- Track the following items by material entity and location/jurisdiction, using systems that contain current information:
  - PCS activities, with each activity mapped to the relevant material entities and core business lines;[7]
  - Customers and counterparties for PCS activities, including values and volumes of various transaction types, as well as used and unused capacity for all lines of credit;[8]
  - Exposures to and volumes transacted with FMUs and agent banks; and[9]
  - Services provided and service-level agreements for other current agents and service providers (internal and external).[10]
- Assess the potential effects of adverse actions by FMUs, agent banks, and other service providers, including suspension or termination of membership or services, on HSBC's U.S. operations, customers, and counterparties;[11]

[7] 12 CFR 243.4(e)(12).
[8] *Id.*
[9] 12 CFR 252.156(g).
[10] 12 CFR 243.4(f)(1)(i).
[11] 12 CFR 252.156(e).

- Develop contingency arrangements in the event of such adverse actions;[12] and
- Quantify the liquidity needs and operational capacity required to meet all PCS obligations, including any change in demand for and in the sources of liquidity needed to meet such obligations.

Shared and Outsourced Services

By the submission of the 2018 Plan, HSBC should identify all shared services and vendors that support critical operations and maintain a mapping of how/where these services support U.S. critical operations.

The 2018 Plan should provide a detailed update regarding (1) the implementation of the Global ServCo structure and its effect on the provision of shared services to HSBC's U.S. operations, specifically improvements made to resolution preparedness; (2) any evaluation of or amendments to Intra-Group Service Agreements (IGSAs) and to critical vendor contracts that cannot be promptly substituted and any strategies that increase their resolution resiliency; and (3) an analysis of how critical shared services are funded in resolution to ensure the continuity of shared and outsourced services that support U.S. critical operations.

Public Section: The 2018 Plan must be divided into a confidential section and a public section. The public section should be submitted as a separate document and should contain an executive summary of the resolution plan that describes the business of HSBC and includes, to the extent material to an understanding of HSBC, the eleven informational elements required by subsection __.8(c) of the Resolution Plan Rule. Additionally, either the public section or the confidential section must detail compliance with subsection __.3(e) of the Resolution Plan Rule.

If you have any questions about the information communicated in this letter, please contact Kathryn Ballintine, Senior Supervisory Financial Analyst, Board of Governors of the

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[12] *Id.*

Federal Reserve System, at 202-452-2555 or katie.ballintine @frb.gov, or Pete Domasky, Senior Complex Financial Institution Specialist, Federal Deposit Insurance Corporation, at 917-320-2832 or pdomasky@fdic.gov.

Sincerely,	Sincerely,
Michael S. Gibson Director Division of Supervision & Regulation Board of Governors of the Federal Reserve System	Doreen R. Eberley Director Division of Risk Management Supervision Federal Deposit Insurance Corporation

CC: Kathryn Ballintine, Board of Governors of the Federal Reserve System
Pete Domasky, Federal Deposit Insurance Corporation