HSBC

Iain J Mackay
Group Finance Director

Chairman Mary L. Schapiro
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

31 July 2011

Dear Chairman Schapiro,

We were pleased to review the U.S. Securities and Exchange Commission's ('SEC') *Work Plan for the Consideration of Incorporating International Financial Reporting Standards ('IFRSs') into the Financial Reporting System for U.S. Issuers* (the 'Work Plan'), which was issued on 26 May 2011.

HSBC Holdings Plc ('HSBC') is one of the largest banking and financial services organisations in the world, with assets of US$2,598 billion at 31 March 2011. Headquartered in London, HSBC serves customers worldwide from more than 7,500 offices in 87 countries and territories in six geographical regions. HSBC's businesses encompass a very broad range of financial services and products, including retail banking and wealth management, commercial banking, global banking and markets, private banking and insurance. HSBC has securities listed on the London Stock Exchange, Hong Kong Stock Exchange, New York Stock Exchange, Euronext Paris and Bermuda Stock Exchange.

HSBC has been a foreign private issuer ('FPI') registered with the SEC since 1999 and has prepared and filed financial statements in accordance with IFRSs as issued by the International Accounting Standards Board ('IASB') since 2005. HSBC has two U.S. subsidiaries, HSBC USA Inc. and HSBC Finance Corporation, which are domestic registrants and have debt registered with the SEC. HSBC's U.S. subsidiaries prepare financial statements in accordance with U.S. GAAP for SEC reporting purposes and in accordance with IFRSs for internal reporting purposes. All HSBC companies, including our U.S. subsidiaries, are managed using financial information prepared under IFRSs.

HSBC supports the objective of one single set of high quality global accounting standards. In global financial markets, information must be comparable, as well as relevant and reliable in order to meet the needs of sophisticated investors. We believe that the combination of high quality global accounting standards with additional jurisdictional disclosure requirements set by the securities regulators of the world's most significant financial markets, such as the SEC, creates a powerful tool for global financial market participants.

The SEC's Work Plan presents the concept of Condorsement as one possible approach to incorporating IFRSs into the U.S. financial reporting system. HSBC does not support the

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Condorsement approach. We would prefer to see the full adoption of IFRSs in the U.S. rather than an approach which maintains U.S. GAAP. We believe that maintaining U.S. GAAP for public companies would create operating complexities while unnecessarily prolonging the period of transition. In contrast, a full adoption of IFRSs into the U.S. financial reporting system would lead to better comparability and transparency in global financial markets which would benefit U.S. investors and investors globally, as well as being of significant benefit to U.S. corporations with extensive international operations. It would also significantly increase the recognition of IFRSs and strengthen its general acceptance.

We understand that U.S. GAAP is embedded in many aspects of domestic regulation, legislation and taxation and therefore adopting IFRSs in the U.S. will present a major change for U.S. companies and regulators and will take time to implement. We believe certain key elements should be considered during the development phase. We have outlined these key elements below.

IFRSs as issued by the IASB

There would be considerable benefit for investors and global capital markets if a single set of high quality global accounting standards without jurisdictional variations were to emerge. For this reason, we believe compliance with IFRSs as issued by the IASB should be required. Additional disclosures considered to be of interest to U.S. constituents and capital markets could be provided in annual reports required by the SEC.

While it would be valuable for all issuers to use IFRSs as issued by the IASB, we believe it is crucial for FPIs to be able to continue reporting under IFRSs as issued by the IASB in their SEC filings. In our view, a FPI should be neither required nor permitted to report under any jurisdictional variation of IFRSs, including a variation created under the U.S. Accounting Standards Codification ('ASC') if one were to develop.

Like many global FPIs, HSBC and all our subsidiaries use IFRSs for internal reporting purposes and are managed on this basis. We believe transparency is increased for investors and users when the basis on which financial information is presented is the same as the one that senior management uses to make decisions and allocate resources.

Jurisdictional variations

The structure of the IASB enables the standard setting process to operate separately from jurisdictional political considerations of the countries which have adopted or are in the process of adopting IFRSs. For this reason, IFRSs should be adopted whenever possible as issued by the IASB. If the U.S. or any other country were to establish a practice of making substantial modifications to or interpretations of IFRSs, there is a considerable risk that multiple versions of IFRSs would develop which could weaken the entire IFRS reporting system.

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The Condorsement approach proposes to maintain U.S. GAAP and to incorporate IFRSs into the U.S. ASC so that a U.S. issuer who is complying with U.S. GAAP would also be able to assert they are in compliance with IFRSs. The Work Plan says that modifications or interpretations of IFRSs should be rare and generally avoidable, however, the Work Plan also states that ultimately the Financial Accounting Standards Board ('FASB') would retain the authority to modify or add to the requirements of IFRSs and that the FASB and the SEC would consider the interests of U.S. constituents and capital markets when making such decisions. We believe this approach, if exercised, would reduce global comparability and consequently reduce the benefits that global financial markets would otherwise receive from having a single set of high-quality global accounting standards.

The European Union ('EU') has an endorsement process under which public companies within member states must apply IFRSs as endorsed by the European Union ('EU'). While some form of national or regional endorsement process is inevitable, there is a danger that such processes can lead to jurisdictional variations. For example, in 2004, the EU gave member states the option to 'carve out' certain provisions in IAS 39: *Financial Instruments: Recognition and Measurement* relating to hedge accounting. HSBC did not take advantage of the EU carve out option and does not support the use of any local variation on IFRSs as issued by the IASB. We disagree with any approach to endorsement which results in jurisdictional amendments to IFRSs.

We are concerned that jurisdictional variations in IFRSs could develop in the U.S. depending on the way in which IFRSs are incorporated into the U.S. financial reporting system. Recently the FASB and the IASB were unable to come to a converged solution on offsetting financial assets and financial liabilities. The Boards decided to pursue separate standards for financial statement presentation, while attempting to maintain comparability through disclosure. If this outcome is indicative of the types of modifications which would be made to IFRSs, then we believe there is a considerable risk of fragmenting the IFRS reporting system and weakening its legitimacy as a single global standard.

In conclusion, we believe that the above examples illustrate the inherent risks with the Condorsement proposal as set out in the Work Plan.

U.S. GAAP

IFRSs are widely used internationally with many countries having already adopted or incorporated the standards and many others scheduled to do so in the near future. IFRSs are generally acknowledged to be comprehensive, principles based, and of high quality. Each standard has been formulated following a well defined due process.

U.S. GAAP has been developed over a significantly longer period of time than IFRSs and consequently, U.S. GAAP has a more extensive body of interpretive guidance surrounding it, including guidance for emerging issues, requirements for specific types of transactions, illustrative examples and industry specific guidance. HSBC believes the IASB and the FASB should use this body of information to best advantage to identify and supplement any essential

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technical gaps in IFRSs which may already be addressed in U.S. GAAP. Addressing and filling any essential technical gaps in IFRSs through the development of IFRSs instead of through maintaining a separate and different U.S. ASC would strengthen the entire system and benefit users in the U.S. and globally.

U.S. subsidiaries of FPIs

Wholly-owned U.S. subsidiaries of FPIs should be able to elect to use IFRSs as issued by the IASB instead of U.S. GAAP for statutory reporting purposes and domestic SEC filings. The Condorsement approach proposes to maintain U.S. GAAP and to incorporate IFRSs into the U.S. ASC so that a U.S. issuer who is complying with U.S. GAAP would also be able to assert they are in compliance with IFRSs as issued by the IASB.

We believe that permitting U.S. subsidiaries of FPIs to elect to use IFRSs without any jurisdictional variations would allow the alignment of their external financial reporting with the reporting used by management to view the business and allocate resources, and by analysts and rating agencies to view the consolidated results of the parent. If jurisdictional variations were to be avoided, use of IFRSs as issued by the IASB would eliminate the need for subsidiaries to incur significant costs to keep records and prepare financial statements under two different sets of accounting standards.

Early adoption

Wholly-owned U.S. subsidiaries of FPIs should be allowed to early adopt IFRSs as this would provide benefits to investors and would serve to increase the knowledge and understanding of IFRSs in the U.S. In addition to the benefits described above, early adopters who are already familiar with applying IFRSs and who have global support mechanisms in place for the use of IFRSs would help the accounting industry in the U.S. increase knowledge and build IFRS resources and experience.

Additionally, early adoption of IFRSs would reduce the extensive record keeping and system requirements currently necessary to prepare financial statements under two different sets of accounting standards. If early adoption were not allowed, we believe the cost burden of preparing financial data under both sets of accounting standards would increase during the convergence phase.

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HSBC supports the efforts of the SEC to explore options which would allow adoption of IFRSs into the U.S. financial reporting system. We believe global comparability is an essential element in providing relevant and reliable information for investors and other users of financial statements and for that reason we continue to support the objective of a single set of high quality global accounting standards.

We are available to discuss our comments with you in further detail if this would be helpful.

Yours sincerely

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