



Douglas J Flint
Group Finance Director

Securities and Exchange Commission
100 F Street NE
Washington, DC 20549-1090
USA

24 September 2007

Dear Sirs

File No S7-13-07

HSBC is one of the largest banking and financial services organisations in the world, with a market capitalisation of US\$215 billion at 30 June 2007. Headquartered in London, HSBC operates through long-established businesses and has an international network of over 10,000 properties in 83 countries and territories in five geographical regions.

HSBC Holdings plc has been a registrant since 1999. At present, HSBC Holdings prepares its financial statements under IFRSs as endorsed by the EU. As at 30 June 2007, there was no difference between IFRSs as endorsed by the EU and IFRSs as issued by the IASB in terms of their application to HSBC. Our subsidiaries throughout Europe, Hong Kong, Australia and many other countries also prepare their financial statements under IFRS and we expect that our Canadian, Indian, Japanese and Chinese subsidiaries to transition to IFRS in the near future.

We also own two large US domestic registrants which currently file under US GAAP but are required to furnish the Group with IFRS financial information as well. To permit these subsidiaries to file under IFRS would reduce the burden of compliance and we therefore support the proposal that US domestic companies should be permitted to file under IFRS.

Q1 Do investors, issuers and other commenters agree that IFRS are widely used and have been issued through a robust process by a stand-alone standard setter, resulting in high-quality accounting standards?

IFRS are widely used throughout the world, and many more countries aim to adopt IFRS in the next few years. IFRS are generally acknowledged to be comprehensive and of high quality. Each standard has been formulated following a well defined due-process, including exposure drafts and, where necessary, discussion papers, and the standards have been widely published. The standards are supported by a series of interpretations issued by a committee set up for this purpose, the IFRIC, which has considered a wide range of implementation issues, and, where appropriate, issued interpretations that carry the same authority as the standards.

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We believe that the constitution and structure of the IASB ensures that the standard setting process is allowed to operate separately from the political and legal considerations of the countries which have adopted or are in the process of adopting IFRS. The members of the IASB are selected, and the board's activities overseen and funded, by the IASC Foundation. The effectiveness of the IASB is monitored by the Trustees of the IASC Foundation. The constitution allows for the involvement of national standard setting bodies and other organisations through the Standards Advisory Council, which advises the IASB on its agenda.

Q 2 Should convergence between U.S. GAAP and IFRS as published by the IASB be a consideration in our acceptance in foreign private issuer filings of financial statements prepared in accordance with IFRS as published by the IASB without a U.S. GAAP reconciliation? If so, has such convergence been adequate? What are commenters' views on the processes of the IASB and the FASB for convergence? Are investors and other market participants comfortable with the convergence to date, and the ongoing process for convergence? How will this global process, and, particularly, the work of the IASB and FASB, be impacted, if at all, if we accept financial statements prepared in accordance with IFRS as published by the IASB without a U.S. GAAP reconciliation? Should our amended rules contemplate that the IASB and the FASB may in the future publish substantially different final accounting standards, principles or approaches in certain areas?

We do not consider it necessary for the US GAAP and IFRS standards to be identical, as long as the frameworks are equivalent in the sense of their informational and decision making value to investors. We believe that sufficient convergence has taken place already to achieve this equivalence, and to enable foreign private issuer filings of financial statements to be prepared in accordance with IFRS as published by the IASB without U.S. GAAP reconciliation. The recent convergence project has made further progress on this area. As a result, most of the entries in a typical US GAAP / IFRS reconciliation will now contain matters of purely technical relevance, including transitional differences that will diminish in importance through time. These technical differences are in general not easily understood by users of accounts, and could even possibly be open to misunderstanding by all but the most sophisticated investors.

Most ongoing projects by the FASB and IASB include a process of consultation and development of standards in parallel, by which proposals can be compared and any differences discussed. We would encourage this process to continue, in the interests of both the preparers and users of financial statements across the world. We particularly encourage further development towards a joint conceptual framework, which will help ensure that the accounting frameworks naturally develop more closely together. Users of financial statements would expect any long-term major differences between the two accounting frameworks to be carefully justified on both technical and cost-benefit grounds. Nonetheless, even if it is decided that it is appropriate by either standard setter

to maintain different approaches to particular issues for the longer term, we believe that the SEC would be justified in regarding the frameworks as equivalent in the above sense.

Q 3 Is there sufficient comparability among companies using IFRS as published by the IASB to allow investors and others to use and understand the financial statements of foreign private issuers prepared in accordance with IFRS as published by the IASB without a U.S. GAAP reconciliation?

IFRS have been published in a considerable amount of detail, with large amounts of supporting implementation guidance and interpretation. Financial statements prepared under IFRS contain extensive disclosures, which assist investors in making comparisons. The experience of implementing IFRS in the EU for listed companies in 2005 has produced a good deal of experience and practical information about IFRS, and many other countries have undergone conversion or are about to do so. While IFRS are more principles-based than US GAAP, and a degree of variation in application is therefore to be expected, however we believe that the above factors have helped establish sufficient comparability for investors to understand IFRS statements without reconciliation to US GAAP.

Q 4 Do you agree that the information-sharing infrastructure being built in which the Commission participates through both multilateral and bilateral platforms will lead to an improved ability to identify and address inconsistent and inaccurate applications of IFRS? Why or why not?

An infrastructure already exists to identify inconsistent and inaccurate applications of IFRS, and we encourage the SEC to place reliance on this process. We welcome the initiative by the SEC and CESR to exchange information on the implementation of IFRS, which should improve consistency in the way the requirements are understood by regulators and therefore help the regulators identify any issues with company filings using IFRS. However, we urge the SEC and other regulators to work through the existing channels to reinforce consistency. We would not welcome the issuance of additional interpretative guidance by regulators on the application of IFRS, as this will run the risk of creating additional localised variants of IFRSs, and weaken the position of the IASB in producing a global set of high quality standards.

Q 5 What are commenters' views on the faithful application and consistent application of IFRS by foreign companies that are registered under the Exchange Act and those that are not so registered?

We do not regard the distinction as being a significant concern in terms of the quality of application of IFRSs by foreign companies.

Q 6 Should the timing of our acceptance of IFRS as published by the IASB without a U.S. GAAP reconciliation depend upon foreign issuers, audit firms and other constituencies having more experience with preparing IFRS financial statements?

Foreign issuers and audit firms already have significant experience of reporting under IFRSs. For example, by virtue of the considerable time and resource expended in the transition to IFRS by companies and audit firms in the EU, as well as two full years' of reporting under IFRS, the depth of knowledge and practical experience is greater than the elapsed time might suggest.

Q 7 Should the timing of any adoption of these proposed rules be affected by the number of foreign companies registered under the Exchange Act that use IFRS?

No, we do not believe that this is a relevant consideration. We would expect the number of Foreign Registrants to increase as a result of the removal of the requirement for reconciliation.

Q 8 The IASB Framework establishes channels for the communication of regulators' and others' views in the IFRS standard-setting and interpretive processes. How should the Commission and its staff further support the IFRS standard-setting and interpretive processes?

We believe that the SEC already takes an appropriate role in the standard-setting and interpretive processes through its membership of IOSCO, and its day to day activities in reviewing company filings. We fully support the SEC in engaging with the IASB and IFRIC on matters that it believes should be addressed, as a matter of due process, but would not support the issuance of SEC-approved interpretations of IFRS.

Q 9 How should the Commission consider the implication of its role with regard to the IASB, which is different and less direct than our oversight role with the FASB?

As mentioned above, a due process already exists, and we fully support the SEC in engaging with the IASB and IFRIC on matters that it believes should be addressed, as well as monitoring and commenting on the appropriate functioning of that due process. In this way, the SEC will be able to play an influential role in that due process in such a way that supports the independent position of the IASB.

Q 10 The Commission has gathered certain information from representatives of issuers, investors, underwriters, exchanges and other market participants at its public roundtable on IFRS. We are interested in receiving information from a broader audience. Is the development of a single set of high-quality globally accepted standards important to investors? To what degree are investors and other market participants able to understand and use financial statements prepared in accordance with IFRS as published by the IASB without a US GAAP reconciliation? We also encourage commenters to discuss ways in which the Commission may be able to assist investors and other market participants in improving their ability to understand and use financial statements prepared in accordance with IFRS. How familiar are investors with financial statements prepared in accordance with IFRS as published by the IASB? Will the ability of an investor to understand and use financial statements that comply with IFRS as published by the IASB vary with the size and nature of the investor, the value of the investment, the market capitalization of the issuer, the industry to which the issuer in question belongs, the trading volume of its securities, the foreign markets on which those securities are traded and the regulation to which they may be subjected, or any other factors? If so, should any removal of the reconciliation requirement be sensitive to one or more of these matters, and, if so, how?

We believe that the development of a single set of high-quality globally accepted standards is of critical importance to investors. We believe that investors and other market participants are already able to understand and use financial statements prepared in accordance with IFRS as published by the IASB, without reconciliation to US GAAP. We encourage the SEC to play a full part in the established due process which supports the consistent and accurate application of IFRS. While investors in certain industries or sectors may be more familiar with IFRS than others due to the international reach of those industries, we believe that investors will be able to adapt readily to the proposed change, and that investors' understanding of IFRS financial statements should not be adversely affected by the removal of the reconciliation requirement.

Q 11 Without a reconciliation, will investors be able to understand and use financial statements prepared using IFRS as published by the IASB in their evaluation of the financial condition and performance of a foreign private issuer? How useful is the reconciliation to U.S. GAAP from IFRS as published by the IASB as a basis of comparison between companies using different bases of accounting? Is there an alternative way to elicit important information without a reconciliation?

We do not believe that the US GAAP reconciliation adds to investors' understanding of the financial statements. As commented above, the US GAAP / IFRS reconciliation has

become a highly technical and specialist disclosure, frequently highlighting transitional differences that will diminish in importance through time. HSBC's experience is that very few, if any, questions are raised by analysts or investors on the reconciliation, and this was also true of the US GAAP /UK GAAP reconciliation which preceded it. Investors are already deriving the information they need from the IFRS accounts. We note that when there has been a temporal difference between the publication of our "home" GAAP results and the US GAAP reconciliation, publication of the US GAAP reconciliation has not elicited any investor response neither have we noted a trading effect. Furthermore, the US GAAP reconciliation information is not used to manage the business of HSBC, and does not therefore play a part in management's description of the performance and financial position of the business.

Q 12 In addition to reconciling certain specific financial statement line items, issuers presenting an Item 18 reconciliation provide additional information in accordance with U.S. GAAP. What uses do investors and other market participants make of these additional disclosures?

HSBC's experience of providing these disclosures is that very little use is made of them by investors. In fact, the extent of the additional disclosure, when taken together with the extensive disclosure requirements in IFRS and Company Law, has the unintended effect of making the financial statements less transparent by overburdening the user with excessive detail, and potentially confusing the user with information prepared on different bases. HSBC's 2006 Annual Report and Accounts ran to 454 pages, of which 31 pages represented a single note on US GAAP / IFRS differences, with attendant disclosures. There were further US disclosures provided elsewhere in that document.

Q 13 Should we put any limitations on the eligibility of a foreign private issuer that uses IFRS as published by the IASB to file financial statements without a U.S. GAAP reconciliation? If so, what type of limitations? For example, should the option of allowing IFRS financial statements without reconciliation be phased in? If so, what should be the criteria for the phase-in? Should only foreign private issuers that are well-known seasoned issuers, or large accelerated filers, or accelerated filers,⁷⁴ and that file IFRS financial statements be permitted to omit the U.S. GAAP reconciliation?

We do not see any case for setting limitations on the removal of the reconciliation, or setting different rules for different foreign issuers.

Q 14 At the March 2007 Roundtable on IFRS, some investor representatives commented that IFRS financial statements would be more useful if issuers filed their Form 20-F annual reports earlier than the existing six-month deadline. We are considering shortening the deadline for annual reports on

Form 20-F. Should the filing deadline for annual reports on Form 20-F be accelerated to five, four or three months, or another date, after the end of the financial year? Should the deadline for Form 20-F be the same as the deadline for an issuer's annual report in its home market? Should we adopt the same deadlines as for annual reports on Form 10-K? Why or why not? Would the appropriateness of a shorter deadline for a Form 20-F annual report depend on whether U.S. GAAP information is included? If a shorter deadline is appropriate for foreign private issuers that would not provide a U.S. GAAP reconciliation under the proposed amendments, should other foreign private issuers also have a shorter deadline? Should it depend on the public float of the issuer?

We believe that the deadline for foreign registrants' Forms 20-F should be the same as the deadlines which apply to their annual reports in their home market. To apply a shorter deadline would be extremely burdensome and costly to Foreign Registrants, who are already in the more burdensome position than Domestic Registrants of having to publish either two sets of annual reports, or one joint document covering both sets of requirements.

Q 15 Although reconciliation to U.S. GAAP of interim periods is not ordinarily required under the Exchange Act, foreign private issuers that conduct continuous offerings on a shelf registration statement under the Securities Act may face black-out periods that prevent them from accessing the U.S. public capital market at various times during the year if their interim financial information is not reconciled. Even if commenters believe we should continue the U.S. GAAP reconciliation requirement for annual reports that include IFRS financial statements, to address this issue should we at least eliminate the need for the U.S. GAAP reconciliation requirement with respect to required interim period financial statements prepared using IFRS as published by the IASB for use in continuous offerings? Should we extend this approach to all required interim financial statements?

We support the complete removal of the reconciliation requirement. Should this not be the outcome, however, we support the removal of the interim reconciliation requirement, which is particularly burdensome and very difficult to provide according to the timescales which normally apply to interim reporting.

Q 16 Is there any reason why an issuer should not be able to unreservedly and explicitly state its compliance with IFRS as published by the IASB? Is there any reason why an audit firm should not be able to unreservedly and explicitly opine that the financial statements comply with IFRS as published by the IASB? What factors may have resulted in issuers and, in particular, auditors refraining from expressing compliance with IFRS as published by the IASB?

As a Public Limited Company incorporated within the EU, HSBC is subject to company law applicable within the EU. The consolidated financial statements of HSBC are therefore prepared in accordance with IFRS as endorsed by the EU, and HSBC is obliged to state its compliance with IFRS as published by the IASB and endorsed by the EU, even though for the last two years there was no difference in application to HSBC between IFRS endorsed by the EU and IFRS issued by the IASB. It is HSBC's policy to comply fully with IFRS as published by the IASB, for example it has not taken advantage of the EU carve out of the hedge accounting requirements of IAS39.

EU endorsed IFRSs may differ from IFRSs as published by the IASB if, at any point in time, new or amended IFRSs have not been endorsed by the EU. It is also possible, although one would expect this to be rare, that the EU may decide not to endorse a standard or an interpretation for whatever reason, creating a local variant of IFRS as published by the IASB.

We do not believe that imposing a requirement to reconcile to US GAAP for those Foreign Registrants who are unable to give the unreserved and explicit statement of compliance with IFRS as published by the IASB would address the issue. The SEC may find it necessary to require reconciliation between figures prepared in compliance with IFRS as published by the IASB, and figures prepared on the local variant of IFRS, with explanation of the differences. This would be an undesirable outcome if it was applied to all such differences without regard to their significance. Where differences are not of such importance or significance that they would influence the decision-making of investors, we would encourage the SEC to apply any such requirement only to significant differences.

Q 17 If the proposed amendments are adopted, should eligible issuers be able to file financial statements prepared using IFRS as published by the IASB without a U.S. GAAP reconciliation for their first filing containing audited annual financial statements? If the amendments are adopted, what factors should we consider in deciding when issuers can use them? For example, should we consider factors such as the issuer's public float (either in the United States or worldwide), whether the issuer has issued only public debt, or the nature of the filing to which the amendments would be applied? Will investors be prepared to analyze and interpret IFRS financial statements without the reconciliation by 2009? If not, what further steps, including investor education, may be necessary?

In general HSBC would wish to see the same approach applied to all Foreign Registrants in this regard.

Q 21 Would issuers have any difficulty in preparing interim period financial statements that are in accordance with IFRS as published by the IASB?

Issuers would have no difficulty in preparing interim information on this basis, and are in fact already doing so where they are reporting annual financial statements under IFRS as endorsed by the IASB.

Q 22 Do foreign private issuers that have changed to IFRS generally prepare interim financial statements that are in accordance with IFRS, and do they make express statements to that effect?

Yes. Under IAS34, 'Interim Financial Reporting', if an entity's interim financial report complies with IAS34, the express statement of that fact is required. Interim financial reports are not described as complying with IFRS unless they comply with all the requirements of IFRS.

Q 23 How significant are the differences between IAS 34 and Article 10? Is the information required by IAS 34 adequate for investors? If not, what would be the best approach to bridge any discrepancy between IAS 34 and Article 10? Should issuers be required to comply with Article 10 if their interim period financial statements comply with IAS 34? Should we consider any revision to existing rules as they apply to an issuer that would not be required to provide a U.S. GAAP reconciliation under the proposed rules?

IAS34 is an integral part of IFRS. We believe that it is well established and represents a reasonable basis for the provision of interim financial information. As such Article 10 should be revised to clarify that interim financial statements that accord with IAS34 satisfy this Article.

Q 24 Are there accounting subject matter areas that should be addressed by the IASB before we should accept IFRS financial statements without a U.S. GAAP reconciliation?

A core set of high quality IFRS standards are in place, supported by a set of principles, and given the potential benefits of removing the reconciliation requirement, we believe that it would be a mistake to delay the removal of the US GAAP reconciliation on the grounds that further developments would yield incremental benefits, as we expect these incremental benefits to be less significant and likely to emerge in time in any case.

Q 25 Can investors understand and use financial statements prepared using IFRS as published by the IASB in those specific areas or other areas that IFRS does

not address? If IFRS do not require comparability between companies in these areas, how should we address those areas, if at all? Would it be appropriate for the Commission to require other disclosures in these areas not inconsistent with IFRS published by the IASB?

We believe that investors can understand and use financial statements prepared using IFRS as published by the IASB in those specific areas or other areas that IFRS does not address, owing to other requirements that promote consistency in the absence of more specific standards. These include:

- Required disclosures setting out the significant accounting policies;
- The requirements of IAS8, 'Accounting Policies, Changes in Accounting Estimates and Errors' that govern the development and application of accounting policies, including the principles of relevance and reliability.
- The guidance in IAS8 that it may be acceptable for management to apply an accounting policy from the most recent pronouncements of other standard setting bodies that use a similar conceptual framework to develop accounting standards (which in practice will most often be US GAAP).

We do not believe, therefore, that it would be appropriate for the SEC to overlay further disclosure requirements.

Q 29 Should the Commission address the implications of forward-looking disclosure contained in a footnote to the financial statements in accordance with IFRS 7? For example, would some kind of safe harbor provision or other relief or statement be appropriate?

The safe harbour provisions which currently exist for information outside the financial statements should be extended to forward looking statements explicitly required by IFRS. We believe that this will increase the usefulness of disclosures to investors, particularly around the risk management disclosures of IFRS7.

Q 30 Are there issues on which further guidance for IFRS users that do not reconcile to U.S. GAAP would be necessary and appropriate? Should issuers and auditors consider guidance related to materiality and quantification of financial misstatements?

Given the existing rules on matters such as materiality and quantification of financial misstatements issued by the SEC, we do not think it necessary for the SEC to issue further rules in respect of Foreign Registrants reporting using IFRS. We refer back to our comments under Q4, which highlighted the risk of creating localised variants of IFRS through the issue of further interpretative guidance.

Q 44 If progress does not continue towards implementing a single set of high quality globally accepted accounting standards, will investors and issuers be served by the absence of a U.S. GAAP reconciliation for financial statements prepared using IFRS as published by the IASB?

Providing that the two frameworks are equivalent in terms of their informational usefulness to investors, we do not see that the US GAAP reconciliation adds any value. Investors would be served by the absence of the US GAAP reconciliation to IFRS as published by the IASB, because of the heavy additional volume of technical disclosure which it generates, with the unintended effect of making the financial statements less transparent by overburdening the user with excessive detail, and potentially confusing the user with information prepared on different bases. It has also been observed that the current reconciliation requirement creates incentives to adopt accounting treatments in either GAAP which either minimise the number of reconciling differences, or simplify the calculation of those differences, whereas the focus should really be on providing useful information to investors and adopting accounting policies that are relevant and reliable.

Q 45 Where will the incentives for continued convergence lie for standard setters, issuers, investors and other users of financial statements if the reconciliation to U.S. GAAP is eliminated for issuers whose financial statements are prepared using IFRS as published by the IASB?

We believe that there will still be significant incentives to converge. This will come from the continued engagement of the SEC, FASB and the IASB in a range of development projects, and the involvement of the SEC in the IASB's due process of forming standards and issuing interpretations under IFRS. We also believe that the broader use of financial statements prepared under IFRS as published by the IASB, particularly by multinational entities, will create natural incentives to converge. This will be driven by a desire by multinational entities to standardise accounting in order to reduce accounting risk and communicate to investors across the world in a common accounting language. These incentives also include the need to train accountants in IFRS and the heavy additional cost of training accountants in multiple accounting frameworks in order to meet local accounting frameworks where different to IFRS as published by the IASB.

Q 46 Are there additional interim measures, beyond the proposed elimination of the U.S. GAAP reconciliation from IFRS financial statements, that would advance the adoption of a single set of high-quality globally accepted accounting standards? If so, what are they? Who should undertake them?

We believe that the removal of the reconciliation requirement represents a fundamentally important step forward. We recommend that this key step is

implemented without limitations and conditions, and that the SEC and other regulators and governmental organisations support the IASB by taking an active and positive role in the due process of the IASB, rather than seeking to apply additional local interpretations and overlays to address perceived deficiencies.

Q 47 Do you agree with our assessment of the costs and benefits as discussed in this section? Are there costs or benefits that we have not considered? Are you aware of data and/or estimation techniques for attempting to quantify these costs and/or benefits? If so, what are they and how might the information be obtained?

We believe that the substantial costs of the US GAAP reconciliation process can be avoided with no loss of benefit to investors. We currently collect some 10,000 data items to support our financial reporting process, of which around 1,000 data elements or 10% are needed to support the US GAAP process.

Q 48 Which foreign private issuers would have the incentive to avail themselves of the proposed amendments, if adopted? Are there any reasons for which an issuer that is eligible to file IFRS financial statements without reconciliation under the proposed amendments would elect to file a reconciliation? If so, what are they?

We strongly believe that most if not all Foreign Registrants would avail themselves of the proposed amendments. We cannot envisage a situation in which an entity would file a US GAAP reconciliation voluntarily, given the low level of investor use of the reconciliation for decision-making purposes.

Q 49 Are there particular industry sectors for which a critical mass of the issuers who raise capital globally already report in IFRS? If so, which industries are they and why?

The adoption of IFRS is already widespread across major companies in diverse industry sectors in a large number of countries, driven by the increasing internationalisation of commerce. The global financial services industry is a case in point.

Yours faithfully

Douglas Flint