



Sir David Tweedie Chairman International Accounting Standards Board 30 Cannon Street London EC4M 6XH

20 April 2009

Dear Sir David

IASB Discussion Paper - Financial Statement Presentation

We welcome the opportunity to comment on the IASB's Discussion Paper on Financial Statement Presentation and thank the Board for enabling us to participate in this debate.

HSBC is one of the largest banking and financial services organisations in the world, with assets of US\$2,527 billion at 31 December 2008. Headquartered in London, HSBC serves customers worldwide from more than 9,500 offices in 86 countries and territories in five geographical regions. HSBC's businesses encompass a very broad range of financial services and products, including personal financial services, commercial lending, global banking and markets, private banking, asset management and insurance.

We would like to highlight that our responses are made from the standpoint of a financial institution. It is our general observation that some of the proposals in the DP appear to be more relevant for other industries. There may well be merit in the proposals for the users of the financial statements for certain types of business, however, we are very concerned that these proposals have little relevance to banks and similar financial institutions. These proposals would impose significant costs on banks for little benefit to the users of banks' financial statements.

In general we believe that the current quality of presentation of information in financial reporting under IFRSs is high and we are not aware that the presentation of financial statements has been of particular concern to users of the financial statements. Given the many urgent issues that need to be addressed as a result of the global financial crisis, we question why the Boards regard this project as justified at this current time.

Our key concerns are explained more fully in our responses to the board's questions in the attached document, and are summarised as follows:

We are concerned that the application of the DP will result in the presentation of too
many sections and categories within the primary financial statements. For example, the
DP proposes that the classification of assets and liabilities should be presented for each



reportable segment. The financial statements of large financial institutions are already burdened by extensive disclosure requirements, and there is a risk with these proposals that the financial statements will become too lengthy and complex to be useful to the users of financial statements;

- We disagree with the proposal to present a single statement of comprehensive income. It is our view that the nature of items that are currently recognised in the income statement are different from those that are included currently in the statement of recognised income and expense and there is a risk that presenting a single statement of comprehensive income may confuse or mislead users of the financial statements by detracting from a meaningful measure of an entity's actual financial performance for the period. We recommend that before a single statement of comprehensive income is adopted, further round table discussions with financial statement preparers be conducted to fully understand the impact this may have on the usefulness of financial reporting;
- The statement of cash flows does not have a significant role in providing information that is meaningful in understanding the future cash-flow generation of a bank, nor is it meaningful to a bank's liquidity position. It therefore lacks relevance in the financial reporting of a bank. As a result we do not believe that using the direct method of cash flow statement preparation for banks will provide information that is more decision-useful compared to the indirect method. It appears from the proposals that the disclosures are equivalent to a Source and application of funds statement, however, we believe that information about the source and application of capital is more useful for banks. Please find attached an extract of HSBC's Source and application of tier I capital disclosure. We recommend that the boards allow the use of the indirect method for presenting the statement of cash flows for banks so that they may avoid incurring very significant costs for no discernable benefit to the users of their financial statements; and
- Since we do not support the direct cash flow method for banks, we do not believe the
 proposed reconciliation schedules are necessary or helpful to an understanding of the
 financial statements of banks. Again, we believe adding these reconciliation schedules
 will add to the complexity of the financial statements and we doubt that this will benefit
 the users of the financial statements.

We would be pleased to discuss our comments in further detail if that would be helpful.

Yours sincerely

HSBC Holdings plc

Level 42, 8 Canada Square, London E14 5HQ Tel: 020-7991 8888 Fax: 020-7992 4872

Appendix - Questions for respondents

Chapter 2: Objectives and principles of financial statement presentation

1. Would the objectives of financial statement presentation proposed in paragraphs 2.5-2.13 improve the usefulness of the information provided in an entity's financial statements and help users make better decisions in their capacity as capital providers? Why or why not? Should the boards consider any other objectives of financial statement presentation in addition to or instead of the objectives proposed in this discussion paper? If so, please describe and explain.

Cohesiveness

We agree that trying to achieve a certain amount of cohesiveness within the primary financial statements may improve the usefulness of the information to users as outlined in section paragraphs 2.5 and 2.6. However, we are concerned that in trying to achieve the cohesiveness objective, the DP places too much emphasis on linking the primary financial statements at the expense of providing decision-meaningful information to users to help them make better decisions in their various capacities, for example as lenders and capital providers. We believe that one of the primary focuses of presenting financial information should be to show how a business is managed and the cohesiveness objective should not be pursued at the expense of decision-useful information.

Disaggregation

We agree in principle that an entity should disaggregate information in a manner that makes it useful in assessing the amount, timing and uncertainty of its future cash flows. However, we are concerned that in requiring a separation of business and financing activities, and a separation of business activities into operating and investing, the concept of disaggregation of information is being applied too prescriptively and as a result lacks relevance to the business of banks and financial institutions. Given the size and complexity of financial institutions we believe that prescribing too many sections and categories will result in financial statements becoming too lengthy and complex to be useful to a user.

We believe that the current format for presenting financial statements is generally well understood by users, and therefore question the cost/benefit rationale for these changes.

In addition, we believe that the purpose of disaggregation should be widened to encompass all decision-useful information, not just to assess the future cash-flows of a business. A broader view of the purpose of financial information would be consistent with a less prescriptive principle for presentation of financial information.

HSBC Holdings plc

Level 42, 8 Canada Square, London E14 5HQ Tel: 020-7991 8888 Fax: 020-7992 4872

Liquidity and financial flexibility objective

We agree with the objective of presenting information in a manner that helps users assess an entity's ability to meet its financial commitments as they become due and to invest in business opportunities.

2. Would the separation of business activities from financing activities provide information that is more decision-useful than that provided in the financial statement formats used today (see paragraph 2.19)? Why or why not?

We believe that for a bank, the separation of business activities from financing activities will not provide information that is more decision-useful than that provided in the financial statement formats used today. While, the raising of longer term debt in subordinated form could be regarded as "financing" the fundamental nature of banking business is one of generating cash flows by accepting financial liabilities over various maturities and providing credit to customers typically on a longer-term basis. As a result, the majority of banks' 'financing activities' are likely to be synonymous with 'operating activities'. A separate 'financing activities' category is unlikely to provide meaningful information.

3. Should equity be presented as a section separate from the financing section or should it be included as a category in the financing section (see paragraphs 2.19(b), 2.36 and 2.52-2.55)? Why or why not?

We agree with the Board's proposal to present equity as a separate section from the financing section.

Currently under IFRSs, equity and liabilities are presented separately in the statement of financial position. We believe the approach in the DP is consistent with the approach in current IFRS financial reporting, will be familiar to readers and is already well understood and accepted by users. Presenting transactions with owners of the business separately will also provide them with more relevant information.

4. In the proposed presentation model, an entity would present its discontinued operations in a separate section (see paragraphs 2.20, 2.37 and 2.71-2.73). Does this presentation provide decision-useful information? Instead of presenting this information in a separate section, should an entity present information about its discontinued operations in the relevant categories (operating, investing, financing assets and financing liabilities)? Why or why not?

We agree that presenting discontinued operations in a separate section will provide decision-useful information because this would provide users with relevant information

HSBC Holdings plc

Level 42, 8 Canada Square, London E14 5HQ Tel: 020-7991 8888 Fax: 020-7992 4872

on the future cash flows of the continuing business, is consistent with the objective of IFRS 5 and is a concept already well understood.

- 5. The proposed presentation model relies on a management approach to classification of assets and liabilities and the related changes in those items in the sections and categories in order to reflect the way an item is used within the entity or its reportable segment (see paragraphs 2.27, 2.34 and 2.39–2.41).
 - (a) Would a management approach provide the most useful view of an entity to users of its financial statements?

While HSBC does not believe that the presentation model proposed is particularly relevant to financial institutions, we support the use of the management approach to classification because we believe financial statements should reflect the way in which assets and liabilities are used within a business. The management model would be consistent with how information is presented as prescribed by other IFRSs such as IFRS 8.

(b) Would the potential for reduced comparability of financial statements resulting from a management approach to classification outweigh the benefits of that approach? Why or why not?

We acknowledge that there is the potential for reduced comparability of financial statements resulting from a management approach to classification; however we consider that the management approach brings greater benefits in terms of relevance to the nature of business and the business model adopted. We do not consider that any loss of comparability resulting from the management approach will be a significant issue in the context of a regulated financial institution such as a bank because the presentation is likely to follow similar business and regulatory models that are used across the banking industry. In general, we believe a low level of judgement will be applied when adopting the management approach to reflect how assets and liabilities are used in a bank.

6. Paragraph 2.27 proposes that both assets and liabilities should be presented in the business section and in the financing section of the statement of financial position. Would this change in presentation coupled with the separation of business and financing activities in the statements of comprehensive income and cash flows make it easier for users to calculate some key financial ratios for an entity's business activities or its financing activities? Why or why not?

We do not believe that separating information into sections and categories will necessarily provide decision-useful information for users of a bank's financial statements unless the classification reflects how the business is managed. The vast majority of a bank's operations are likely to be classified in the operating section.

HSBC Holdings plc

Level 42, 8 Canada Square, London E14 5HQ Tel: 020-7991 8888 Fax: 020-7992 4872

In the banking sector, many key financial ratios and measures are based upon regulatory or risk management methodologies and not accounting measures, for example, capital adequacy ratios, liquidity risk management ratios and market risk methodologies such as value at risk.

An example of a key ratio for a bank which is based on accounting measures is the 'net interest margin', which is calculated as total interest income received on financial assets less interest payable on financial liabilities divided by average interest earning assets. Clearly any approach that tried to separate interest income and expense between business and financing activities would result in an arbitrary division of this ratio, reducing its usefulness to users of the financial statements.

7. Paragraphs 2.27, 2.76 and 2.77 discuss classification of assets and liabilities by entities that have more than one reportable segment for segment reporting purposes. Should those entities classify assets and liabilities (and related changes) at the reportable segment level as proposed instead of at the entity level? Please explain.

We are strongly against the proposal that the classification of assets and liabilities should be presented for each reportable segment. We believe that requiring these disclosures at the reportable segment level would result in the primary financial statements becoming too lengthy and complex and therefore reduce both the clarity and usefulness of the information to a user. Segmental reporting has a different purpose to the primary financial statements, and should be dealt with under IFRS8.

The cost of complying with the proposed disclosures could be significant compared to the low benefit that we believe users would obtain.

8. The proposed presentation model introduces sections and categories in the statements of financial position, comprehensive income and cash flows. As discussed in paragraph 1.21(c), the boards will need to consider making consequential amendments to existing segment disclosure requirements as a result of the proposed classification scheme. For example, the boards may need to clarify which assets should be disclosed by segment: only total assets as required today or assets for each section or category within a section. What, if any, changes in segment disclosures should the boards consider to make segment information more useful in light of the proposed presentation model? Please explain.

As per answer to question 7, we do not support the classification of assets and liabilities as proposed by the DP at a segmental level.

HSBC Holdings plc

Level 42, 8 Canada Square, London E14 5HQ Tel: 020-7991 8888 Fax: 020-7992 4872

9. Are the business section and the operating and investing categories within that section defined appropriately (see paragraphs 2.31-2.33 and 2.63-2.67)? Why or why not?

We believe the proposed categories are defined appropriately, albeit that the distinctions drawn between business and financing, and operating and investing, are not meaningful in the context of a bank, HSBC supports the use of principles-based definitions and believe they will complement the management approach to the classification of assets and liabilities.

10. Are the financing section and the financing assets and financing liabilities categories within that section defined appropriately (see paragraphs 2.34 and 2.56-2.62)? Should the financing section be restricted to financial assets and financial liabilities as defined in IFRSs and US GAAP as proposed? Why or why not?

Please see our answer to question 9. Further, we do not support the prohibition of nonfinancial assets and liabilities in the financing section. All liabilities could be considered sources of financing and it follows that they could be appropriately classified as such. This part of the proposal is not consistent with the management approach to classification adopted across the rest of the DP. As already noted, we support the view that management should determine whether or not an asset or liability should be classified in the financing section based upon how it is being used in the business.

Chapter 3: Implications of the objectives and principles for each financial statement

- 11. Paragraph 3.2 proposes that an entity should present a classified statement of financial position (short-term and long-term subcategories for assets and liabilities) except when a presentation of assets and liabilities in order of liquidity provides information that is more relevant.
 - What types of entities would you expect not to present a classified statement of financial position? Why?

We would not expect banks and similar financial institutions to present a classified statement of financial position. Financial assets and liabilities can have wide range of maturity dates and classifying them into maturity buckets would become an arbitrary process. For example, some trading assets may not be sold within one year of the reporting date because the market in which they are trading has become inactive, but this position could change as market conditions change. We believe that for a bank, presenting the statement of financial position in order of liquidity provides more relevant information than classifying assets into short-term or long-term categories.

Tel: 020-7991 8888 Fax: 020-7992 4872

(b) Should there be more guidance for distinguishing which entities should present a statement of financial position in order of liquidity? If so, what additional guidance is needed?

We do not believe additional guidance is needed because this choice is available under the current IAS 1 and therefore is a well understood concept.

12. Paragraph 3.14 proposes that cash equivalents should be presented and classified in a manner similar to other short-term investments, not as part of cash. Do you agree? Why or why not?

HSBC agrees with the Boards' reasoning because we believe it would result in more decision-useful information. The concept of cash and cash equivalents is not useful for a bank because liquidity management focuses on a wider range of instruments. Accordingly, placing too much emphasis on one concept of cash and cash equivalents is not a particularly useful approach.

13. Paragraph 3.19 proposes that an entity should present its similar assets and liabilities that are measured on different bases on separate lines in the statement of financial position. Would this disaggregation provide information that is more decision-useful than a presentation that permits line items to include similar assets and liabilities measured on different bases? Why or why not?

We generally agree that presenting similar assets and liabilities that are measured on different bases on separate lines would result in more decision-useful information. However, we believe that there is merit in not disaggregating certain assets and liabilities by type of instrument. For example, trading assets are managed for a similar purpose and measured at fair value through the profit or loss. Separating trading assets according to their instrument type e.g. treasury bills, other eligible bills etc, on the face of the balance sheet would not present to a user a meaningful analysis of how those assets are managed.

We do not support the proposed disaggregation in the statement of financial position. As already stated, we are concerned that the statement of financial position could become to long and become less understandable to users of the financial statements. As a result, we recommend that any further disaggregation be made in the notes to the financial statements.

14. Should an entity present comprehensive income and its components in a single statement of comprehensive income as proposed (see paragraphs 3.24–3.33)? Why or why not? If not, how should they be presented?

HSBC strongly disagrees with presenting comprehensive income and its components in a single statement of comprehensive income as proposed.

HSBC Holdings plc

Level 42, 8 Canada Square, London E14 5HQ Tel: 020-7991 8888 Fax: 020-7992 4872

It is our view that the nature of items that are currently recognised in the income statement is different to those that are included currently in the statement of recognised income and expense. Items included within the statement of recognised income and expense are not relevant to financial performance in the reporting period, and including them in one statement of comprehensive income is likely to obscure a meaningful measurement of financial performance. For example, the fair value movement on a qualifying cash flow hedge relates to the hedging of a future cash flow, and should not be incorporated in the same statement as items currently recognised in the income statement because it would not provide a faithful representation of an entity's performance for the period. We therefore believe there is a risk that presenting a single statement of comprehensive income may confuse or mislead users of the financial statements, resulting in a measure of financial performance for the period that is unduly volatile, hard to understand and lacking relevance to future cash-flow generation.

We note that the proposal may render redundant the available for sale category, which may effectively come to be viewed in the same way as the current 'fair value through profit or loss' category. HSBC considers that the available for sale category, with its separate presentation of short term fair value fluctuations within equity, provides useful information to the users of financial statements about an entity's business model.

If the Boards decide to take the adopted approach forward, we believe it is very important that the components of other comprehensive income that were previously excluded from the income statement are presented separately within the single statement, with appropriate sub-headings to convey financial performance in a meaningful way.

We recommend that before a single statement of comprehensive income is adopted, field testing be performed and that an extensive discussion takes place based upon the findings to fully understand the impact this may have on the financial reporting for different types of business activity.

15. Paragraph 3.25 proposes that an entity should indicate the category to which items of other comprehensive income relate (except some foreign currency translation adjustments) (see paragraphs 3.37–3.41). Would that information be decision-useful? Why or why not?

We agree that indicating the category to which items of other comprehensive income relate would result in information being decision-useful because a reader will be able to better understand the relationship between the statement of comprehensive income and the statement of financial position.

HSBC Holdings plc

Level 42, 8 Canada Square, London E14 5HQ Tel: 020-7991 8888 Fax: 020-7992 4872

16. Paragraphs 3.42-3.48 propose that an entity should further disaggregate within each section and category in the statement of comprehensive income its revenues, expenses, gains and losses by their function, by their nature, or both if doing so will enhance the usefulness of the information in predicting the entity's future cash flows. Would this level of disaggregation provide information that is decision-useful to users in their capacity as capital providers? Why or why not?

HSBC believes that the proposed level of disaggregation, if reflected in the primary financial statements, would result in statements of excessive length and detail, and would therefore detract from the overall understandability of the information. We therefore strongly support the inclusion of paragraph 3.46, which allows an entity to present some or all of its by-nature information in the notes to the financial statements.

17. Paragraph 3.55 proposes that an entity should allocate and present income taxes within the statement of comprehensive income in accordance with existing requirements (see paragraphs 3.56–3.62). To which sections and categories, if any, should an entity allocate income taxes in order to provide information that is decision-useful to users? Please explain.

HSBC does not support the proposal of allocating income taxes to the business or financing section or to categories within those sections. We believe that allocating income taxes to sections and categories would be a largely arbitrary process, would be overreliant on management judgement in order to achieve meaningful results, and therefore may not provide accurate information to users of the financial statements.

- 18. Paragraph 3.63 proposes that an entity should present foreign currency transaction gains and losses, including the components of any net gain or loss arising on remeasurement into its functional currency, in the same section and category as the assets and liabilities that gave rise to the gains or losses.
 - (a) Would this provide decision-useful information to users in their capacity as capital providers? Please explain why or why not and discuss any alternative methods of presenting this information.

We believe that while the proposal appears to be reasonable on a conceptual level, in practice foreign exchange risk is managed centrally in financial institutions, with exposures managed or hedged on a net basis, and therefore the allocation of foreign currency transaction gains and losses in the way proposed would be arbitrary and may provide misleading information to users of the financial statements on the actual level of foreign exchange risk exposure incurred by the bank or financial institution.

(b) What costs should the boards consider related to presenting the components of net foreign currency transaction gains or losses for presentation in different sections and categories?

We do not know the full extent of costs that would be incurred to implement the approach in question 18 but believe that in a large international group such as HSBC it is likely to be very significant, for little additional benefit to the users of financial statements, and operationally very burdensome.

- 19. Paragraph 3.75 proposes that an entity should use a direct method of presenting cash flows in the statement of cash flows.
 - (a) Would a direct method of presenting operating cash flows provide information that is decision-useful?

The direct method of presenting operating cash flows may provide information that is decision-useful to users of the financial statements of a non-financial institution because it shows the cash flows of an entity more clearly.

However, HSBC is strongly opposed to the use the direct method of presenting cash flows in the statement of cash flows for a bank. There is ample evidence that the users of financial statements of banks do not find the cash flow statement to be relevant information for predicting future cash flows, nor is the statement relevant to a bank's liquidity risk management. As a result, users of banks' financial statements do not place significant importance on the cash flow statement.

Therefore we do not believe the using direct method for banks will provide information that is more decision-useful compared to using the indirect method given that the lack of importance placed on the cash-flow statement in predicting future cash flows. The systems requirements that would be needed in order to implement the direct method in a bank would be very significant.

We recommend that the Boards allow the use of the indirect method for presenting cash flow statements for banks and financial institutions, so that they may avoid incurring very significant costs for no discernable benefit to the users of their financial statements.

(b) Is a direct method more consistent with the proposed cohesiveness and disaggregation objectives (see paragraphs 3.75–3.80) than an indirect method? Why or why not?

We do not support the use of the direct method for banks for the reasons outlined above.

HSBC Holdings plc

> (c) Would the information currently provided using an indirect method to present operating cash flows be provided in the proposed reconciliation schedule (see paragraphs 4.19 and 4.45)? Why or why not?

> We do not support the use of the direct method for banks for the reasons outlined above.

20. What costs should the boards consider related to using a direct method to present operating cash flows (see paragraphs 3.81-3.83)? Please distinguish between one-off or one-time implementation costs and ongoing application costs. How might those costs be reduced without reducing the benefits of presenting operating cash receipts and payments?

For a bank, presenting a cash flow statement using the direct cash flow method would result in considerable costs for no perceived benefit to the users of its financial statements. Most of these costs would be likely to be one-off implementation costs in order to be able to capture the required information. The one-off costs would largely relate to configuring both product and accounting systems along with staff training.

21. On the basis of the discussion in paragraphs 3.88–3.95, should the effects of basket transactions be allocated to the related sections and categories in the statement of comprehensive income and the statement of cash flows to achieve cohesiveness? If not, in which section or category should those effects be presented?

We agree with the boards view in paragraph 3.92 that allocating the effects of basket transactions would be arbitrary and would not provide meaningful information to users. We see merit in separating material basket transactions in a single section or category as this would highlight the overall impact of a transaction to a user of the financial statements. Consequently, out of the three potential categories in the DP, HSBC supports alternative C, under which a basket transaction would be shown in a separate section of the above primary statements. However, if alternative C was not be adopted by the Boards our second choice would be alternative B because this is consistent with the management approach.

Tel: 020-7991 8888 Fax: 020-7992 4872

Chapter 4: Notes to financial statements

22. Should an entity that presents assets and liabilities in order of liquidity in its statement of financial position disclose information about the maturities of its short-term contractual assets and liabilities in the notes to financial statements as proposed in paragraph 4.7? Should all entities present this information? Why or why not?

Information about the contractual maturities of financial assets and liabilities should be provided in the notes to the financial statements. Information specifically about short term assets and liabilities may be useful for some types of entity, however, for a bank the relevant disclosures relating to liquidity risk management are prescribed by IFRS7, and focus on the measures used to manage liquidity risk.

- 23. Paragraph 4.19 proposes that an entity should present a schedule in the notes to financial statements that reconciles cash flows to comprehensive income and disaggregates comprehensive income into four components: (a) cash received or paid other than in transactions with owners, (b) accruals other than remeasurements, (c) remeasurements that are recurring fair value changes or valuation adjustments, and (d) remeasurements that are not recurring fair value changes or valuation adjustments.
 - (a) Would the proposed reconciliation schedule increase users' understanding of the amount, timing and uncertainty of an entity's future cash flows? Why or why not? Please include a discussion of the costs and benefits of providing the reconciliation schedule.

Since we do not support the direct cash flow method for banks, we do not believe the proposed reconciliation schedule is necessary. In the context of a large multi-national bank such as HSBC, the cost would be significant. Most of these costs would be likely to be one-off implementation costs in order to be able to capture the required information. The one-off costs would largely relate to configuring both product and accounting systems and staff training. We believe that there will be little, if any, benefit obtained from preparing a cash flow statement on the direct method and providing a reconciliation to comprehensive income for the reasons explained above.

(b) Should changes in assets and liabilities be disaggregated into the components described in paragraph 4.19? Please explain your rationale for any component you would either add or omit.

Since we do not support the direct cash flow method, we do not believe the proposed reconciliation is meaningful for banks.

(c) Is the guidance provided in paragraphs 4.31, 4.41 and 4.44-4.46 clear and sufficient to prepare the reconciliation schedule? If not, please explain how the guidance should be modified.

Since we do not support the direct cash flow method, we do not believe the proposed reconciliation is meaningful for banks.

24. Should the boards address further disaggregation of changes in fair value in a future project (see paragraphs 4.42 and 4.43)? Why or why not?

We do not believe it is necessary for the boards to put on its agenda a project in respect of further disaggregation of changes in fair value, given the work that has already been done or is in progress on fair value measurements and disclosures.

25. Should the boards consider other alternative reconciliation formats for disaggregating information in the financial statements, such as the statement of financial position reconciliation and the statement of comprehensive income matrix described in Appendix B, paragraphs B10-B22? For example, should entities that primarily manage assets and liabilities rather than cash flows (for example, entities in the financial services industries) be required to use the statement of financial position reconciliation format rather than the proposed format that reconciles cash flows to comprehensive income? Why or why not?

In general we find the approach in providing additional reconciliations unconvincing in communicating clearly the information investors need to know.

We believe the financial position reconciliation is complex and may actually make it more difficult to understand the financial statements. We do not agree with the need for this reconciliation because it is a reconciliation to the direct cash flow, which we do not support for banks. We do not believe the statement of comprehensive income matrix is necessary.

Producing these reconciliations would result in a substantial amount of work and cost. We also envisage many practical issues in respect of collating information and are not convinced that the cost/benefit rationale of producing these reconciliations is viable.

We question whether a user of the financial statements would benefit from the preparation of these reconciliations and would recommend field testing to explore this further.

HSBC Holdings plc

Level 42, 8 Canada Square, London E14 5HQ Tel: 020-7991 8888 Fax: 020-7992 4872

- 26. The FASB's preliminary view is that a memo column in the reconciliation schedule could provide a way for management to draw users' attention to unusual or infrequent events or transactions that are often presented as special items in earnings reports (see paragraphs 4.48–4.52). As noted in paragraph 4.53, the IASB is not supportive of including information in the reconciliation schedule about unusual or infrequent events or transactions.
 - (a) Would this information be decision-useful to users in their capacity as capital providers? Why or why not?

We do see a benefit of highlighting unusual or infrequent events or transactions to users of the financial statements. However, it is HSBC's view that unusual or infrequent events are best communicated in the Business Review commentary or Management's Discussion and Analysis section, not as memo disclosure in reconciliations.

As we have already expressed, we do not support the presentation of a reconciliation schedule for a bank.

(b) APB Opinion No. 30 Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, contains definitions of unusual and infrequent (repeated in paragraph 4.51). Are those definitions too restrictive? If so, what type of restrictions, if any, should be placed on information presented in this column?

We support the use of principle-based definitions and do not think they are too restrictive.

(c) Should an entity have the option of presenting the information in narrative format only?

We do not have any objections to presenting the information in narrative format only.

HSBC Holdings ple

Source and application of tier I capital (Audited)

	2008 Basel II US\$na	2007 Basel I US\$m
Movement in tier 1 capital (Audited) At 1 January Changes to tier 1 capital arising from transition to pro forma Basel II basis²	104,967 (3,282)	87,842
Opening pro-forma tier 1 capital under Basel II rules ² Consolidated profits attributable to shareholders of the parent company Dividends to shareholders Add back: shares issued in lieu of dividends Decrease/(increase) in goodwill and intangible assets deducted Removal of own credit spread Ordinary shares issued Innovative tier 1 securities issued Other (including exchange differences) ²	101,685 5,728 (11,301) 3,593 11,994 (4,610) 470 2,133 (14,356)	19,133 (10,241) 4,351 (2,366) (2,205) 477 - 7,976
At 31 December	95,33 <u>6</u>	104,967
At 1 January	1,123,782 40,867	938,678
Opening Basel II pro forma risk-weighted assets	1,164,649 (16,675)	185,104
At 31 December	1,147,974	1,123,782

As Basel II rules were implemented across the Group, adjustments to the previously published 31 December 2007 pro forma risk-weighted assets were identified, amounting to US\$35,198 million. The pro forma position at 31 December 2007 has been adjusted accordingly.
 Pro forma capital items as at 1 January 2008 are unaudited.