

Russell C Picot
Group Chief Accounting Officer

Mr. Hans Hoogervorst Chairman International Accounting Standards Board 30 Cannon Street London EC4M 6XH

Ms. Leslie Seidman Chairman Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-05116

14 July 2011

Dear Mr. Hoogervorst and Ms. Seidman

Offsetting Financial Assets and Financial Liabilities

HSBC supports the efforts of the International Accounting Standards Board ('IASB') and the Financial Accounting Standards Board ('FASB') to converge to high quality global accounting standards, and believe this to be of fundamental importance to capital markets.

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.

We believe 'Offsetting financial assets and financial liabilities' ('Offsetting') is one of the fundamental areas for global convergence of accounting standards because it addresses a key concern of users and regulators by eliminating one of the largest quantitative differences between IFRSs and US GAAP for banks. We were discouraged by the discussions at the June 2011 joint board meeting where the IASB and the FASB were unable to reach a converged decision and decided to try to address their differences through disclosure. Convergence through disclosure will not eliminate the current headline difference between IFRSs and US GAAP regarding Offsetting and therefore we would like to see the Boards continue discussions with the objective of producing a converged standard.

Both gross and net presentation approaches have their respective merits and drawbacks. However, all parties, including the IASB, the FASB, and users of both US GAAP and IFRS

HSBC Holdings plc

Level 39, 8 Canada Square, London E14 5HQ Tel: 020-7991 8888 Fax: 020-7991 4624



financial statements agree that information on both a gross and net basis is required in order to understand the risks involved with derivative financial instruments. Neither a gross nor a net presentation in isolation would provide the information that users require, and neither users nor regulators endorse one presentation approach in the primary financial statements over the other.

HSBC continues to believe that presentation principles should reflect the economics of derivative financial instrument transactions. Derivatives under a master netting agreement, traded on an exchange or through a clearing house, and subject to cash margins in effect constitute net settlement and should be presented on a net basis. As discussed in our response to the Offsetting exposure draft, we believe Offsetting should be required for derivative assets and derivative liabilities where a legally enforceable master netting agreement is in place and where credit and liquidity risks have been minimised so that the right or obligation which exists is in effect only for the net amount. We further believe that a statement of financial position based solely on a gross presentation could obscure true economic risks by making other balances appear insignificant as compared to grossed up balances for derivatives and repo agreements which are fully collateralised. We believe that it should be possible to achieve a high-quality converged standard with proposals developed along the lines set out above.

If the Boards decide to not pursue the objective of a converged standard, we believe the IASB should not pursue the project on Offsetting, but retain the Offsetting criteria in IAS 32, Financial Instruments: Presentation, with additional disclosure proposals to achieve comparability with the FASB at this time. As fully discussed in our response on Offsetting, we believe the current proposal would require significant changes to make it operational, specifically relating to the use of the terms 'unconditional' and 'simultaneous', the treatment of variation margin and the onerous disclosure requirements. The cost of implementing a new standard on offsetting would not achieve any appreciable benefits if the standard was not converged with the US standard. In the medium term, we believe that the Boards will need to re-engage on the project in the context of the US process to adopt IFRS so it would be preferable not to make any changes at this time which could be further revised at a later stage.

As always, we would be pleased to discuss our comments with you in further detail if this would be helpful.

Yours sincerely

Russell Pusi