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Group Chief Accounting Officer

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European Financial Reporting Advisory Group
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Brussels

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Dear Ms. Flores

Exposure Draft Mandatory Effective Date of IFRS 9

HSBC is one of the largest banking and financial services organisations in the world, with assets of US\$2,691 billion at 30 June 2011. Headquartered in London, HSBC serves customers worldwide in 87 countries and territories in six geographical regions. HSBC provides a very broad range of financial services and products organised through four global businesses, Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking.

Mandatory Effective Date

We agree that the effective date of IFRS 9 should be postponed. We support the IASB in completing all phases of IFRS 9 and the other standards in progress, including insurance contracts, to a timetable that permits sufficient due process and the development of high quality standards. HSBC continues to support the classification and measurement of financial assets and liabilities under IFRS 9 as a significant improvement over IAS 39 *Financial Instruments: Recognition and Measurement*, and would like to see it implemented on a timely basis. However, we are concerned that, given the scale and complexity of the combined changes, 2015 may not be achievable. There needs to be sufficient lead time, both to complete the remaining phases of IFRS 9 and to allow entities to assess impacts and design, develop and test revised accounting systems and procedures necessary to implement the new requirements.

We understand arguments for linking the mandatory effective date of IFRS 9 with the new standard on insurance contracts and also the view that users may prefer a single “big bang” approach to the adoption of all the new and revised standards rather than piecemeal changes over a number of years, if the IASB is unable to complete its current agenda on a timely basis. Your proposal is that entities are allowed three years to implement IFRS 9 after the completion of all phases of the standard and the standard on insurance contracts.

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While this solution has some logic, we are concerned that it does not provide the certainty that entities need to progress their implementation projects. The IASB itself needs to continue to make progress on finalising standards. The proposal may also be subject to criticism that urgent financial instrument changes are not being made expeditiously. Therefore we support the IASB setting and publicly committing itself to a challenging, but realistic deadline. We suggest that the IASB should provide a revised schedule clearly illustrating how such a deadline has been set, the risks to this deadline and how these risks can be mitigated so that the standards can be issued with sufficient lead time for implementation.

Given the risk of further delay, we support amending the accounting for fair value movements arising from own credit risk on non-derivative financial liabilities in IAS 39 as a step towards improving the financial reporting for financial instruments in the near term. This amendment would not be controversial, does not pose any operational difficulties and would improve the financial reporting for financial instruments.

Comparatives

While we agree that comparatives are important for users, comparatives which are not in fact representative of the results and financial position in accordance with a new accounting standard are not useful and will not help users' understanding of the differences. The transitional provisions of IFRS 9 result in financial instruments which are derecognised at the date of transition continuing to be classified and measured in accordance with IAS 39. This means that comparatives will be a mixture of IFRS 9 and IAS 39 presentations and measurements which will not be comparable with either the pre-transition IAS 39 accounting or the post IFRS 9 implementation accounting. In order to produce the comparatives, entities will need to develop systems to track financial instruments that have been derecognised which will be complex, costly and time consuming. Since the resulting comparatives will not be relevant or reliable, in our view the requirement cannot meet any reasonable cost benefit test. The problems become more acute the further back in time comparatives are restated, which is an important consideration for those subject to SEC requirements, but there is still concern with regard to the IFRS mandatory comparative period set out in the proposed revision to IAS 1.

The other phases of IFRS 9 will have different transition provisions, for example, hedge accounting is likely to be prospective and it is not clear that it would be possible to apply the revised impairment requirements to restate comparatives without using undue hindsight. This compounds the problem of IFRS 9 restatements not being useful. The issue becomes even more complex assuming other standards also have the same implementation date. If there is a single "big bang" implementation date, the transition is likely to be larger than the original transition to IFRSs and restated comparatives that are mix of different transitional requirements and reliefs is likely to be counter productive to clear communication of the accounting changes. If there is not a single "big bang" implementation date, then we question the value of a continual restatement of comparatives as successive changes are made.

Rather than restated comparatives, we believe entities should be required to clearly explain the impact of transition to the new standards on the revised opening balance sheet for the start of the current period, including what has been classified, measured and presented differently as a result of the new requirements. Such disclosure will be more useful than unrepresentative comparatives. As in the transition to IFRSs in 2005, EU bodies such as the European Securities and Markets Authority also have a role to play in encouraging entities to effectively manage the communication of the financial impact of transitioning to the new standards.

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

Yours sincerely



Russell Picot
Group Chief Accounting Officer