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Chairman
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Dear Hans

Mandatory Effective Date of IFRS 9

HSBC welcomes the opportunity to comment on the IASB's Exposure Draft the 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.

Delay of effective date

We strongly agree that the mandatory effective date of IFRS 9 should be postponed. In our response to the 'Request for Views on Effective Dates and Transition Methods' we supported a single implementation date of no earlier than 1 January 2015 for all the major standards in progress, but with the very important condition that relief is given from restating comparatives. This remains our view. 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 changes, and the Board's commitment to expose any proposals from the US Financial Accounting Standards Board on financial instrument accounting, the IASB may not be able to complete all the phases of IFRS 9 and other proposed changes in time to enable preparers to implement the changes for 2015. We note that relief from the requirement to restate comparative information (discussed below) would help to reduce the risk of further postponement of the effective date. Rather than providing another date that may be subject to further change, we suggest that the IASB provide feedback on their response to the 'Request for Views on Effective Dates and Transition Methods' and determine a challenging, but realistic deadline for the adoption of the new standards. The IASB should provide a revised schedule clearly illustrating how such a deadline has been set, the risks to this deadline and how these

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risks can be mitigated so that the standards can be issued with sufficient lead time for implementation.

We also support the IASB in making the decision on the delay as quickly as possible within the due process. Entities need to plan for the implementation of the new standard but they need to do so with some certainty as to the requirements. Sufficient lead time is necessary to allow preparers to assess impacts and design, develop and test the new and amended accounting systems and procedures needed to implement the new requirements. This certainty is particularly important for US foreign private issuers in the EU, such as HSBC, who would otherwise be in the position of having to plan to either prepare two sets of IFRS financial statements prior to EU endorsement – one in full compliance with IFRSs for the SEC and another in compliance with IFRSs as endorsed by the EU or have to prepare a US GAAP reconciliation which is practically not feasible.

Given the proposed delay to 2015, and the risk of further delay, as an interim measure we support an amendment to IAS 39 for the presentation of fair value movements arising from own credit risk on non-derivative financial liabilities. This would be a key improvement in financial reporting for financial instruments in the near term, would not be controversial and does not pose any operational difficulties.

Comparative requirements

We strongly disagree with the proposal not to change the requirements in IFRS 9 for the restatement of comparative periods. We note that, where it is possible to apply a new standard retrospectively, it is possible to do this without restating comparatives by preparing an opening balance sheet as if the new standard had always been applied as at the date of the start of the current period, rather than as at the date of the earliest comparative period presented.

Within the requirements of IFRS 9, it is not possible to create meaningful comparatives since the classification and fair value option designations must be done as at the date of adoption of the standard and financial instruments that are derecognised as at that date continue to be reported under IAS 39 in the comparative periods. There will be considerable costs and efforts involved in tracking items that have been derecognised so they are not restated. More importantly, the comparatives will be a mix of IFRS 9 and IAS 39 values and will not be comparable to any results that would have been reported in the past or will be reported in full compliance with IFRS 9. We do not believe that such comparatives will be helpful to users in understanding the impact of the transition.

There are currently requirements for comparative restatements for some of the new standards that first apply in 2013. We question the benefit to users of further restatements in 2015 (or a later date). Continual changes to comparative periods will cause additional work for users and could be confusing.

In addition, IFRS 9 will not be adopted in isolation, and will itself have aspects of both retrospective and prospective application, for example for hedge accounting and possibly for impairment. Other standards which are expected to be adopted at the same time, insurance,

revenue recognition and leasing, will each have their own transitional provisions because it is unlikely to be possible for them to be fully retrospective. This compounds the problem with comparative periods not being representative of the results when all the standards are fully applied, and therefore increases the risk of confusion. Given the volume of changes expected in 2015 (or a later date), we believe the work required is potentially larger than the initial adoption of IFRSs in 2005 and the benefit to users of restated comparatives in these circumstances is doubtful. The IASB should review the requirement for restatement of comparatives more generally in respect of the whole package of standards since removing this requirement would result in a smoother transition.

As in the adoption of IAS 39, IAS 32 and IFRS 4 in 2005, we believe users would be better served by clear explanations of the effect of transition, rather than trying to understand unrepresentative 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. The IASB should conduct outreach with preparers and users to determine what additional information could be produced on transition that would better meet users' needs in a cost effective manner.

It should also be noted that US foreign private issuers have to produce some financial information, such as a summary income statement and balance sheet, for four comparative periods and include full information for the income statement for two comparative periods. Therefore, the requirement to restate comparative periods imposes a significant additional burden for these issuers. At the very least, it would be helpful for the IASB to specifically limit any requirements for restatements to the required IFRS comparative period as defined in the revised IAS 1.

More generally, as set out in our response to 'ED/2011/2 – Improvements to IFRSs', we urge the IASB to undertake more stringent cost/benefit exercises before mandating the restatement of prior periods and to remain open to making additional changes to existing standards and new standards to further ease transition.

We would be pleased to discuss this issue with you further.

Yours sincerely



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