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Dear Sirs,

Impact of the IFRS 9 *Financial Instruments* - Hedge Accounting Review Draft on existing macro hedge accounting

We welcome the opportunity to provide comments on the impact of the IFRS 9 *Financial Instruments* – Hedge Accounting Review Draft on the existing macro hedge accounting under IAS 39 *Financial Instruments: Recognition and Measurement*.

HSBC is one of the world's largest banking and financial services organisations, with total assets of US\$2,721 billion at 30 September 2012. Headquartered in London, HSBC has an international network of 6,900 offices in 80 countries and territories, representing both established and faster-growing markets, organised in six geographical regions. HSBC serves around 60 million customers through four global businesses: Retail Banking and Wealth Management, Commercial Banking, Global Banking and Markets, and Global Private Banking.

Like many other financial institutions, HSBC relies on the Implementation Guidance (IG) F6.2 and F6.3 as set out in IAS 39 issued by the International Accounting Standards Board (IASB) for our portfolio cash flow hedge designation. Although IASB clarified that financial institutions can apply macro cash flow hedge accounting under IFRS 9, we still believe that the IASB's decision to not include these IGs in IFRS 9 could potentially call into question our existing practice under IAS 39.

The new general hedge accounting model applies where entities manage risk in a 'macro' context including cash flow hedges of open and closed portfolios. Therefore, there is a risk that the application of portfolio cash flow hedge accounting under our existing practice could be inconsistent with some aspect of the new general hedge accounting model under IFRS 9. We are not aware of any other issues at this early stage, but the concern remains that such inconsistencies could arise when we have a full understanding of how the new general hedging model will be applied or when the major accounting firms have developed their own views. If so, there could be significant challenges in changing hedge accounting practices and systems in a relatively short period, with further changes no doubt being needed when the macro hedging project is finalised.

While the IASB clarified that proxy hedges (hedges that do not perfectly reflect the underlying risk management activity) are permitted so long as the designation is directionally consistent with the actual risk management activity, it remains unclear as to how the phrase

“directionally consistent” would be applied in practice. In addition, we are also concerned that the interpretation of proxy hedging may have an impact on how the new disclosure in accordance with IFRS 7 *Financial Instruments: Disclosure* paragraph 22A – 22B could be applied in practice for proxy hedges. It would be unfortunate if significant systems development were needed to meet the disclosure for proxy hedges which will subsequently change when the macro hedge accounting standard is finalised.

Therefore, whilst we support that the IASB’s decision to include an explanation that not carrying forward implementation guidance for IAS 39 does not mean that entities cannot apply macro cash flow hedge accounting under IFRS 9, we would also urge the IASB to explicitly confirm that, in the event of any significant implementation issues arising, the IASB will consider making amendments to IFRS 9 to avoid preparers having to change their IAS 39 compliant portfolio hedging practices twice.

As always, we would be pleased to discuss our comments and concerns in more detail if this would be helpful.

Yours sincerely



