



HSBC North America Holdings Inc.

Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549-1090  
USA

November 13, 2007

Dear Sirs

**File No S7-20-07**

HSBC North America Holdings Inc. (HSBC North America) is the holding company of HSBC Holdings plc's principal North American operations. It is one of the top ten bank holding companies in the U.S. with assets exceeding US\$500 billion (IFRS basis) as at June 30, 2007. HSBC North America employs 56,000 staff and operates in 46 U.S. states as well as across the Canadian provinces.

Our ultimate parent company, HSBC Holdings plc (HSBC) is UK-based, and prepares its financial statements under International Financial Reporting Standards (IFRS), at present, both as published by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU). As such, we are obliged to report our financial results to our parent prepared under IFRS. Furthermore, IFRS is the basis on which the senior executives of HSBC North America review financial performance, and against which their personal performance, and that of the rest of management, is assessed.

We own two large US domestic registrants, HSBC Finance Corporation and HSBC USA Inc. These registrants do not issue equity securities in the marketplace as HSBC is the sole equity holder. However, these registrants have issued public debt in the marketplace. As a result, both of these registrants file with the Commission under US GAAP. Currently, these registrants manage the business utilizing IFRS financial information and as a result, their segment disclosures are prepared on an IFRS basis, which are reconciled back to US GAAP for SEC filing purposes. We believe that both debt and HSBC equity market participants rely on our US registrants' IFRS segment disclosures to understand the impact of our North American businesses as they represent a sizeable component of HSBC Holdings plc. We believe providing complete IFRS financial information to our investors will expand its usefulness to both our debt investors as well as HSBC's equity investors.

We, therefore, strongly support the Commission allowing US issuers to furnish Financial Statements prepared under IFRS. A significant proportion of the 1,600 finance staff employed throughout North America are involved in duplicate processes of preparing and analyzing both IFRS information submitted to our parent and used for management purposes or US GAAP financial data in the filings of the domestic registrants and other US subsidiaries with reporting obligations to U.S. regulators. The Commission's decision to allow US issuers to furnish Financial Statements prepared under IFRS would reduce the burden of compliance and eliminate the need to maintain two sets of financial records as well as expand its usefulness of our financial information for both our debt and equity investors.

In addition, should the Commission choose to defer any decision on whether U.S. based SEC registrants can file financial statements in accordance with IFRS instead of U.S. GAAP, we would respectfully request that early implementation be allowed for the small population of U.S. SEC registrants that represent wholly owned subsidiaries of a Foreign Private Issuer. We recommend that the Commission consider allowing U.S. based SEC registrants that are wholly owned subsidiaries of a Foreign Private Issuer the ability to elect to file financial statements with the Commission under IFRS commensurate with the elimination of the formal US GAAP to IFRS reconciliation requirements for Foreign Private Issuers.

As referenced in a separate comment letter dated September 24, 2007 to you from our parent, HSBC Holdings plc, regarding the use of IFRS and the elimination of a U.S. GAAP reconciliation for Foreign Private Issuers, we believe IFRS is a high-quality set of accounting standards and that the benefits of international convergence in the long-term outweigh any short term costs of convergence. We also note that many of the remaining differences with US GAAP are purely of a technical relevance, including transitional differences that will diminish in importance through time. As such, there would be little adverse impact on investors from allowing domestic issuers to adopt IFRS on a voluntary basis in the near-term.

Our responses to the detailed questions in the Concept Release are included as an Appendix.

Yours faithfully,

Iain Mackay  
Executive Vice-President and Chief Financial Officer  
HSBC North America Holdings Inc.

**Response to Questions in the:  
Concept Release on Allowing U.S. Issuers To Prepare Financial  
Statements in Accordance With International Financial  
Reporting Standards; Proposed Rule**

**II. The Effect of IFRS on the U.S. Public Capital Market**

**Q1 Do investors, U.S. issuers, and market participants believe the Commission should allow U.S. issuers to prepare financial statements in accordance with IFRS as published by the IASB?**

IFRS are widely used throughout the world, and many more countries aim to adopt IFRS in the next few years. IFRS are generally acknowledged to be comprehensive and of high quality. Each standard has been formulated following a well defined due-process, including exposure drafts and, where necessary, discussion papers, and the standards have been widely published. The standards are supported by a series of interpretations issued by a committee set up for this purpose, the IFRIC, which has considered a wide range of implementation issues, and, where appropriate, issued interpretations that carry the same authority as the standards.

We believe that the constitution and structure of the IASB, as described in the Concept Release, ensures that the standard setting process is allowed to operate separately from the political and legal considerations of the countries which have adopted or are in the process of adopting IFRS.

As such, we believe IFRS to be a body of accounting literature of equal quality, and afforded the requisite due-process, as that of U.S. GAAP.

Allowing U.S. issuers to prepare financial statements in accordance with IFRS will be of significant benefit to those companies who:

- have significant overseas operations and subsidiaries who are obliged to prepare IFRS-compliant financial statements for local regulatory or statutory filing purposes;
- are in an industry sector whereby a significant proportion of non-US competitors prepare financial statements in accordance with IFRS; or
- are a U.S. domestic registrant with an ultimate parent company that reports its consolidated financial statements under IFRS.

For these reasons, we strongly support the Commission allowing U.S. issuers to prepare financial statements in accordance with IFRS as published by the IASB.

**Q2 What would be the effects on the U.S. public capital market of some U.S. issuers reporting in accordance with IFRS and others in accordance with U.S. GAAP? Specifically, what would be the resulting consequences and opportunities, and for whom? For example, would capital formation in the U.S. public capital market be better facilitated? Would the cost of capital be reduced? Would comparative advantages be conferred upon those U.S. issuers who move to IFRS versus those U.S. issuers who do not (or feel they can not)? Would comparative advantages be conferred upon those investors who have the resources to learn two sets of accounting principles (IFRS and U.S. GAAP) as compared to those who do not?**

We do not believe there would be significant consequences in the U.S. public capital market of some U.S. issuers reporting in accordance with IFRS and others in accordance with U.S. GAAP. There would be little or no comparative advantages conferred upon those U.S. issuers who move to IFRS, nor on investors who are able to allocate more resources to understanding both sets of principles. We believe that the current significant proximity of IFRS to U.S. GAAP mitigates the ability for any competitive advantage to be gained by issuers that move to IFRS or investors that learn IFRS.

**Q3 What would be the effects on the U.S. public capital market of not affording the opportunity for U.S. issuers to report in accordance with either IFRS or U.S. GAAP? Specifically, what would be the resulting consequences and opportunities, and for whom? Would capital formation in the U.S. public capital market be better facilitated? Would the cost of capital be reduced? Alternatively, are there certain types of U.S. issuers for which the Commission should not afford this opportunity?**

The impact of not affording this opportunity would be that a significant amount of resources continue to be consumed in meeting multiple reporting obligations under two different sets of accounting rules, either due to foreign local regulations and statute or because of accepted industry norms. This would ultimately lessen returns to investors.

**Q4 To what degree would investors and other market participants desire to and be able to understand and use financial statements of U.S. issuers prepared in accordance with IFRS? Would the desire and ability of an investor to understand and use such financial statements vary with factors such as the size and nature of the investor, the value of the investment, the market capitalization of the U.S. issuer, the industry to which it belongs, the trading volume of its securities, or any other factors?**

Large, institutional investors will spend more time than small investors seeking to understand the financial statements of U.S. issuers prepared in accordance with IFRS, in more depth and more detail. But such a situation will be no different to the current depth of understanding of U.S. GAAP amongst different investor classes, and will be consistent across all sizes of issuer and all industries.

**Q5 What immediate, short-term or long-term incentives would a U.S. issuer have to prepare IFRS financial statements? Would the incentives differ by industry segment,**

**geographic location of operations, where capital is raised, other demographic factors, or the aspect of the Commission's filing requirements to which the U.S. issuer is subject?**

Certain industries, which are dominated by large multinational corporations and where foreign competitors already report under IFRS, will have a higher incentive to prepare IFRS financial statements, since it will ease comparison against their competitors. In addition, the benefits of eliminating a second set of accounting rules would include the reduction of a significant amount of effort consumed in meeting multiple reporting obligations under two different sets of accounting rules.

**Q6 What immediate, short-term or long-term barriers would a U.S. issuer encounter in seeking to prepare IFRS financial statements? For example, would the U.S. issuer's other regulatory (e.g., banking, insurance, taxation) or contractual (e.g., loan covenants) financial reporting requirements present a barrier to moving to IFRS, and if so, to what degree?**

We believe that complexities already exist for many companies who currently are required to report under multiple standards. Based on the experience of transition to IFRS in Europe and other jurisdictions, we believe that where companies, and their banking system, regulators and tax-authorities, adopt a timely and well-structured program of transition and education of interested parties, the above cited barriers are far from insurmountable.

**Q7 Are there additional market forces that would provide incentives for market participants to want U.S. issuers to prepare IFRS financial statements?**

We do not believe so. Given the proximity of IFRS and U.S. GAAP, we cannot envisage an industry whereby the possibility of presenting results in a better light would be an incentive.

**Q8 Are there issues unique to whether investment companies should be given the choice of preparing financial statements in accordance with IFRS? What would the consequences be to investors and other market participants of providing investment companies with that choice?**

We believe investment companies should be given the same choice as other issuers. Although this will result in certain differences, for example, whereby a subsidiary is consolidated that had been exempted under U.S. GAAP, we believe this will not hinder comparability where disclosures are appropriately made.

**Q9 Would giving U.S. issuers the opportunity to report in accordance with IFRS affect the standard setting role of the FASB? If so, why? If not, why not? What effect might there be on the development of U.S. GAAP?**

Whilst a number of issuers continue to report under U.S.GAAP, the role of the FASB will not change significantly from how it has developed over the past few years, following the Norwalk agreement.

**Q10 What are investors', issuers' and other market participants' opinions on the effectiveness of the processes of the IASB and the FASB for convergence? Are investors and other market participants satisfied with the convergence progress to date, and the robustness of the ongoing process for convergence?**

We welcome a number of the developments that have converged U.S. GAAP and IFRS in recent times. However, we have noted instances over the past couple of years where there appeared to be a missed opportunity for greater convergence. Examples include:

- The FASB issued FAS 159 'The Fair Value Option for Financial Assets and Financial Liabilities' which allows an unrestricted use of the Fair Value Option, whilst IAS 39 still contains certain criteria which must be met to elect its use.
- The FASB publishing FAS 157 'Fair Value Measurements' in advance of the IASB developing a similar fair value framework in final form.
- The recognition of pension deficits and surpluses on the balance sheet was converged when the FASB issued FAS 158 'Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans'. However, differences remain in respect of the recognition of actuarial gains and losses due to the alternatives allowed under IAS 19 'Employee benefits'.
- The issuance of FAS123(R) 'Share-Based Payment' reduced the number of differences with IFRS 2 'Share-based Payment'. However, a number of differences, including the recognition of related tax assets, remain.

Accordingly, we do not believe the convergence process to date has been as successful as we had hoped. However, we believe that greater engagement and communication among the standard setters, issuers and market participants will be possible going forward due to the attention that the Commission has devoted to this topic.

**Q11 How would the convergence work of the IASB and the FASB be affected, if at all, if the Commission were to accept IFRS financial statements from U.S. issuers? If the Commission were to accept IFRS financial statements from U.S. issuers, would market participants still have an incentive to support convergence work?**

We believe the adoption of IFRS by U.S. issuers will act as an incentive to a more thorough convergence program. This will hopefully lead to the issuance by the IASB and FASB of fully convergent standards without the need to revisit areas in the future where only some of the differences have been eliminated.

**Q12 If IFRS financial statements were to be accepted from U.S. issuers and subsequently the IASB and the FASB were to reach substantially different conclusions in the convergence projects, what actions, if any, would the Commission need to take?**

In the unlikely event that the FASB and/or IASB issued standards that diverged greatly from the accounting treatment mandated by the other, and that the adoption of one or other body of literature had the potential to provide materially different reporting in the filings of competitors in the same industry, we believe the Commission would need to monitor associated accounting policy disclosures by issuers, to ensure such difference were not misleading to investors.

**III. Global Accounting Standards**

**Q13 Do investors, issuers and other market participants believe giving U.S. issuers the choice to prepare financial statements in accordance with IFRS as published by the IASB furthers the development of a single set of globally accepted accounting standards? Why or why not, and if so, how?**

Yes, we believe that the support of the Commission will further the development of a single set of globally accepted accounting standards.

At present, national regulations and statutes in a number of jurisdictions require local financial statements to be prepared under either IFRS or U.S. GAAP and, in some cases, an additional local standard for certain components (e.g., Canadian GAAP). They present this alternative on the grounds that companies may wish to choose U.S. GAAP in the knowledge that they require access, now or some time in the future, to the U.S. capital markets. This requires regulators to be familiar with both sets of accounting literature.

Were the Commission to give U.S. issuers the choice to prepare financial statements in accordance with IFRS, this would give impetus to regulators, preparers, and accounting firms in other countries to focus their resources in IFRS which will ultimately lead to greater input into the standard setting process.

**Q14 Are investors, U.S. issuers and other market participants confident that IFRS have been, and will continue to be, issued through a robust process by a stand-alone standard setter, resulting in high quality accounting standards? Why or why not?**

We believe the constitution and structure of the IASC Foundation, SAC, IASB and IFRIC leads to a thorough and transparent standard-setting process, which is free from political and legal considerations of the countries which have adopted or are in the process of adopting IFRS.

**Q15 Would it make a difference to investors, U.S. issuers and other market participants whether the Commission officially recognized the accounting principles established by the IASB?**

The official recognition by the Commission of the accounting principles established by the IASB would certainly improve the credibility of, and enhance confidence in, IFRS by U.S. issuers and other market participants.

**Q16 What are investors', U.S. issuers' and other market participants' views on how the nature of our relationship with the IASB, a relationship that is different and less direct than our oversight role with the FASB, affects the Commission's responsibilities under the U.S. securities laws?**

We believe that the Commission already takes an appropriate role in the standard-setting and interpretive processes through its membership of IOSCO, and its day to day activities in reviewing company filings. We fully support the SEC in engaging with the IASB and IFRIC on matters that it believes should be addressed, as a matter of due process, but would not support the issuance of SEC-approved interpretations of IFRS.

Having a less direct oversight of the standard-setting body should not detract from the Commission's ability to protect investors and maintain fair, orderly, and efficient markets.

#### **IV. IFRS Implementation Matters for U.S. Issuers**

**Q17 In what ways might the Commission be able to assist in improving investors' ability to understand and use financial statements prepared in accordance with IFRS?**

We believe the key input the Commission should have in this area is in monitoring disclosures in the financial statements of issuers in two principle areas: the accounting policies adopted by a company reporting under IFRS, and descriptions of the issuer's transition to IFRS as mandated by IFRS 1 'First-time Adoption of International Financial Reporting Standards'. Hence, much of the onus will rightly be on issuers to educate their investors in a clear manner.

**Q18 What are the incentives and barriers to adapting the training curricula for experienced professionals to address both IFRS and U.S. GAAP? Separate from ongoing training, how long might it take for a transition to occur? How much would it cost?**

The main incentive to training professionals in the finance, tax and investor relations departments of preparers is the opportunity to eliminate some of the duplicate work that currently exists, as outlined in Q1 above.

The incentive in accounting firms to training their professional staff in IFRS is that costs should be recouped in fees charged advising clients on their transition to IFRS. International firms will also find they have a workforce with skill-sets more easily transferable between different countries, which will improve professional development.

The barrier to both will be the reluctance to commit resources in the early stages when the benefits are less certain.



**Q19 What are the incentives and barriers relevant to the college and university education system's ability to prepare its students for a U.S. public capital market in which U.S. issuers might report under IFRS? What are the incentives and barriers relevant to changing the content of the Uniform CPA Examination? How should the Commission address these incentives and barriers, if at all?**

The incentive to the college and university education system and the State CPA boards will come from market demand for appropriately educated graduates and CPAs. Again, the main barrier will be the reluctance to commit resources in the early stages when the benefits are less certain and other colleges, universities or State CPA boards are yet to alter their curriculum or requirements. The public backing of IFRS by the Commission should help address this barrier.

**Q20 What issues would be encountered by U.S. issuers and auditors in the application of IFRS in practice within the context of the U.S. financial reporting environment?**

There will inevitably be an initial learning period for both issuers and auditors in accounting areas where IFRS does not have prescriptive guidance in a specific area. However, based on the experience of transition to IFRS in Europe and other jurisdictions, in such circumstances a logical and consistent interpretation of IFRS usually develops with the assistance of the professional accounting firms, industry bodies and regulators.

**Q21 How do differences between IFRS and U.S. GAAP bear on whether U.S. issuers, including investment companies, should be given the choice of preparing financial statements in accordance with IFRS?**

We do not believe that, given the proximity of IFRS and U.S. GAAP, we could envisage many industries whereby the possibility of presenting results in a more favorable light would act as an incentive.

A different accounting conclusion on the consolidation or non-consolidation of a subsidiary company or a special purpose entity is potentially one such area and, as the Concept Release notes, this could produce materially different financial statements for investment companies. But provided disclosures of accounting policies are appropriate, we do not believe this should prevent investment companies from being given the same choice as other US issuers.

**Q22 What do issuers believe the cost of converting from U.S. GAAP to IFRS would be? How would one conclude that the benefits of converting justify those costs?**

The costs of converting from U.S. GAAP to IFRS will be significant in terms of fully training staff, updating financial reporting processes and updating underlying product systems, and educating investors, banks and other stakeholders. However, the opportunity to eliminate some of the duplicate work that currently exists where, for example, foreign subsidiaries are obliged to prepare IFRS for local regulators should justify this initial investment.

**Q23 Would audit firms be willing to provide audit services to U.S. issuers who prepare their financial statements in accordance with IFRS? How, if at all, would allowing U.S. issuers to prepare IFRS financial statements affect the current relative market shares of audit firms?**

The major audit firms currently have significant international accounting knowledge. U.S. issuers who wish to prepare IFRS financial statements but are not currently served by a firm experienced in IFRS should have various options in the marketplace to engage a firm who is able to offer international technical support for those jurisdictions adopting IFRS. Smaller firms that desire to provide IFRS related services will be required to train their staff accordingly, but it is also likely that smaller companies' desire to adopt IFRS may be more gradual following momentum established by larger international companies.

**Q24 What factors, if any, might lead to concern about the quality of audits of IFRS financial statements of U.S. issuers?**

Insufficient education of professional staff. However, we believe the incentives outlined in Q18 above, as well as professional ethics, should ensure that firms do not take on audit assignments without the required expertise.

**Q25 Would any amendments or additions to auditing and other assurance standards be necessary if U.S. issuers were allowed to prepare IFRS financial statements?**

Guidance on auditing an issuer's first set of financial statements prepared under IFRS, and the associated disclosures around transition mandated by IFRS 1, may well prove to benefit auditors.

**Q26 How could global consistency in the application of IFRS be facilitated by auditors of U.S. issuers?**

Auditors of U.S. issuers will enhance the consistent application of IFRS through contributing to the standard and interpretation setting process

**Q27 Do you think that the information sharing infrastructure among securities regulators through both multilateral and bilateral platforms will improve securities regulators' ability to identify and address inconsistent and inaccurate applications of IFRS?**

We welcome the initiative by the Commission and CESR to exchange information on the implementation of IFRS, which should improve consistency in the way the requirements are understood by regulators and therefore help the regulators identify any issues with company filings using IFRS. However, it would be beneficial for the Commission and other regulators to work through the existing channels to reinforce consistency. We would not welcome the issuance of additional interpretative guidance by regulators on the application of IFRS, as this will run the risk of creating additional localised variants of IFRS, and weaken the position of the IASB in producing a global set of high quality standards.

**Q28** If the Commission were to consider rulemaking to allow U.S. issuers to prepare IFRS financial statements, are there operational issues relative to existing Commission requirements on which additional guidance would be necessary and appropriate? Would it be appropriate to have differing applicability for U.S. issuers of the form and content provisions of Regulation S-X depending on whether they use IFRS in preparing their financial statements? Are there operational or other issues unique to investment companies? In preparing and auditing IFRS financial statements, should U.S. issuers and their auditors consider the existing guidance related to materiality and quantification of financial misstatements?

We believe it would be appropriate to allow U.S. issuers who prepare IFRS financial statements to be given a similar exemption to the form and content provisions of Regulation S-X as that afforded to Foreign Private Issuers in the 2007 Proposing Release 'Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards without Reconciliation to U.S. GAAP'.

**Q29** Should there be an accommodation for foreign issuers that are not foreign private issuers regardless of whether the Commission were to accept IFRS financial statements from U.S. issuers? Should any accommodation depend upon whether the foreign issuer is subject to the laws of another jurisdiction which requires the use of IFRS, or if the issuer had previously used IFRS financial statements in its filings with the Commission?

We believe foreign issuers that are not foreign private issuers should be treated consistently with U.S. issuers.

**Q30** Who do commenters think should make the decision as to whether a U.S. issuer should switch to reporting in IFRS: a company's management, its board of directors or its shareholders? What, if any, disclosure would be warranted to inform investors of the reasons for and the timing to implement such a decision? If management were to make the decision to switch to IFRS, do investors and market participants have any concerns with respect to management's reasons for that decision?

We believe the decision should be that of management, after due consultation with their board of directors, shareholders and investors where appropriate.

**Q31** When would investors be ready to operate in a U.S. public capital market environment that allows the use of either IFRS or U.S. GAAP by U.S. issuers? When would auditors be ready? How about those with other supporting roles in the U.S. public capital market (e.g., underwriters, actuaries, valuation specialists, and so forth)? Is this conclusion affected by the amount of exposure to IFRS as it is being applied in practice by non-U.S. issuers?

Experience in Europe and other jurisdictions shows that it is not unreasonable for investors, auditors and other participants to be ready to operate in a U.S. public capital market environment that allows the use of either IFRS or U.S. GAAP by U.S. issuers within a time-frame of 3-4 years.

**Q32 Should the Commission establish the timing for when particular U.S. issuers could have the option to switch from preparing U.S. GAAP to IFRS financial statements? Should market forces dictate when a U.S. issuer would make the choice to switch from U.S. GAAP to IFRS financial statement reporting? If the former, what would be the best basis for the Commission's determination about timing?**

The Commission should establish the timing of the option to make a switch following the analysis of this consultation exercise and further consultation as appropriate. We believe that U.S. registrants that represent subsidiaries of foreign private issuers that already prepare financial statements on an IFRS basis are already able to file with the Commission on an IFRS basis and would be in a position to do so for 2008 filings.

**Q33 Should the opportunity, if any, to switch to IFRS reporting be available to U.S. issuers only for a particular period of time? If so, why and for what period? At the end of that period of time, could commenters foresee a scenario under which it would be appropriate for the Commission to call for all remaining U.S. issuers to move their financial reporting to IFRS?**

We believe the opportunity should be indefinite.

**Q34 What difficulties, if any, do U.S. issuers anticipate in applying IFRS 1's requirements on first-time adoption of IFRS, including the requirements for restatement of and reconciliation from previous years' U.S. GAAP financial statements?**

We believe the requirements in IFRS 1 simply present the framework set out a useful opportunity to communicate with investors, banks and other parties on the impact of IFRS on the issuer's financial statements. Where they are applied faithfully and comprehensively (and numerous examples from other jurisdictions will be available to U.S. issuers) they are an invaluable part of the IFRS education process.

**Q35 Would it be appropriate for U.S. issuers that move to IFRS to be allowed to switch back to U.S. GAAP? If so, under what conditions?**

In the event that a U.S. issuer ceased to have substantial overseas operations, or the industry in which it operated developed in such a way that its main competitors now reported under U.S. GAAP, it may be appropriate for the issuer to revert to reporting under U.S. GAAP, for the reasons that prompted it to move to IFRS in the first place. We do not believe the Commission should preclude such an event.