HSBC

Russell C Picot
Group Chief Accounting Officer

Catherine Woods
Financial Reporting Council
5th Floor, Aldwych House
71-91 Aldwych
London WC2B 4HN

13 January 2014

Dear Ms Woods

Risk Management, Internal Control and the Going Concern Basis of Accounting

We welcome the opportunity to provide comments on the draft guidance to directors of companies applying the UK Corporate Governance Code and associated changes to the Code.

HSBC is one of the largest banking and financial services organisations in the world, with assets of US$2,723 billion at 30 September 2013. Headquartered in London, HSBC serves customers worldwide in 80 countries and territories in six geographical regions. HSBC provides a 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.

HSBC supports the highest standards in financial reporting and transparency, including risk reporting. We have been heavily involved in helping to establish and implementing the recommendations of the Enhanced Disclosure Task Force which include disclosures to allow users to better understand liquidity, funding and capital adequacy risks as well as top and emerging risks. We agree that financial reporting as a whole should provide sufficient information for users to understand these risks.

Therefore, we welcome the revised approach being taken by the Financial Reporting Council (FRC) to implement the Sharman Panel recommendations, which more clearly differentiates between the going concern basis of preparation of financial statements and the broader assessment of risks that form part of a company's risk management and reporting processes. Nevertheless, we have some concerns with the revisions to the guidance on risk management and internal control and changes to the Code. We also recommend that consideration is given to the style of the guidance, which we find more difficult to understand than the existing version to ensure that it is suitable for its intended audience.

We support the reduction of duplicative requirements and therefore agree that Code Provision C.1.3, which required directors to report that the business is a going concern, can be deleted. We question whether the word "robust" adds any meaningful content to the requirement for boards to carry out an assessment of the principal risks facing the company; the assessment should be appropriate to the nature of the risk. We do not agree with the suggestion that the Board should explain what actions have been or are being taken to remedy any significant failings or weaknesses identified from the review of internal controls. To the extent that significant matters have been discussed by the Audit Committee, including control

HSBC

weaknesses, disclosure will already be required by the FRC *Guidance on Audit Committees* and it seems unhelpful to introduce potentially overlapping duplicate disclosure requirements.

In addition, we strongly object to the FRC giving guidance on the application of IFRS in relation to material uncertainties to the going concern basis of accounting and suggest Appendix C is not included in the final guidance. The International Accounting Standards Board is considering this aspect of IAS 1*Presentation of Financial Statements* and it is unhelpful in the international context for the FRC to attempt to pre-empt this due process. We also do not agree that it is consistent with IAS 1 for the judgements about the disclosure of material uncertainties to be linked to whether the actions that management may take to address concerns are or are not within the normal course of business, which may be difficult to determine. Rather it would be preferable for these judgements about disclosure to be made in the broader context of what is necessary disclosure for the financial statements to give a true and fair view.

While we agree that relevant linkages should be made between the risk disclosures and any disclosure of material uncertainties to the going concern basis of accounting, we do not agree that the guidance should suggest that users will expect matters disclosed as material uncertainties should have previously been included in the Strategic Report in earlier annual reports. Contrary to the aim to focus on relevant information, this seems likely to encourage disclosure of all potential risks rather than the principal risks, to avoid a risk not being identified in the Strategic Report with the benefit of hindsight.

We note that the supplementary guidance for banks that central bank support for a solvent and viable bank does not necessarily constitute a material uncertainty remains responsive to the recommendations of the Sharman Panel.

Yours sincerely

Russell Picot