



**Ralph G Barber**

*Group Company Secretary*

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Dear Mr Hodge

HSBC welcomes the consultation on the revised UK Corporate Governance Code and is pleased to support the changes proposed subject to the comments below on director re-election. The Code remains largely fit for purpose and there is no need for radical change or greatly increased prescription beyond what is proposed. There is, however, an additional matter to the issues raised in the consultation that has arisen for HSBC as a consequence of implementing the recommendations of the Walker Review of corporate governance in UK banks. In our view the current and proposed Code provision C.3.2 relating to the terms of reference and membership of audit/risk committees requires minor amendment to provide appropriate flexibility to companies.

Firstly, I would like to respond to the two options suggested for the re-election of directors. In our view each alternative has weaknesses. As directors act in the long-term interests of the company, it is logical for each director to serve more than a one-year term. It is inappropriate to single out a chairman for annual re-election as it isolates the individual rather than maintaining focus on the board as a whole. The alternative proposal of annual re-election of all directors gives rise to the potential, however remote, of an entire board being removed at one time. Such a situation cannot possibly be in the best interests of a company or its shareholders.

Instead of introducing prescription in this area, we believe it is important to retain flexibility in the Code for companies to determine for themselves the frequency of the re-election of directors and chairmen. In our view the traditional practice of one-third of the board seeking re-election annually works well. If a change in the Code provisions on the re-election of directors is deemed necessary, I would recommend that boards should be required to keep the re-election of directors under regular review and for issuers to explain their approach in the annual corporate governance statement.

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Code provision C.3.2 sets out the main responsibilities of the audit committee which should be set out in its terms of reference. These include:

- *to review the company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors, or by the board itself, to review the company's internal control and risk management systems; and*
- *to monitor and review the effectiveness of the company's internal audit function.*

Following the recommendations of the Walker Review for the establishment of a risk committee there should be flexibility for the responsibilities in relation to the internal audit function to be delegated to a risk committee. It is also recommended that some flexibility be introduced which will enable companies to appoint suitably independent individuals who are not directors to the audit and/or risk committee.

Please let me know if you would like any clarification or further information on the points raised.

Yours sincerely



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