



Stephen K Green
Group Chairman

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2 July 2007

Dear Chris,

Thank you for your letter of 18 April 2007 inviting views on the FRC's consultation paper on the impact of The Combined Code. With apologies for the delay in responding, I offer the following thoughts:

Is the "comply or explain" approach working effectively?

The "comply or explain" mechanism works effectively provided it is respected by companies and shareholders and those who advise shareholders. However, in one particular area there is a growing tendency for shareholders and their advisers to construe the provisions of The Code in a far more prescriptive way than can be taken from a natural interpretation of the words. Provision A.3.1 sets out the relationships or circumstances which may appear relevant to the Board's determination of a Director's independence, including if the Director "has served on the Board for more than nine years from the date of their first election". Increasingly, we are seeing this being interpreted to include service on subsidiary companies or indeed service on companies before they are acquired.

We have found our subsidiary company boards a source of excellent non-executive Directors who join the Board of the holding company with invaluable insight and experience of our operations as well as the skills and expertise they bring from their experience outside the HSBC Group. If The Combined Code could be amended I would recommend adding the words "... of the company..." after "Board".

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Do disclosures on the Combined Code in annual reports provide useful information to shareholders at proportionate cost to companies?

We regard the cost of disclosure as a necessary consequence of being entrusted with shareholders' investments and of having access to the securities markets. However, the principal element of the cost of disclosure is the publication and distribution of periodic reports. This has largely been addressed by the recent changes to the Companies Act which has given much greater flexibility in the use of electronic communications with shareholders.

I hope the above is helpful.

With kind regards.

*Yours ever,
Stephen.*

S K Green