HSBC HOLDINGS PLC
Form 6-K
May 07, 2010

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a - 16 or 15d - 16 of

the Securities Exchange Act of 1934

For the month of May 2010

HSBC Holdings plc

42nd Floor, 8 Canada Square, London E14 5HQ, England

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F).

Form 20-F X Form 40-F ......

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934).

Yes....... No X

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-..............).

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

R QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2010

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ______ to

Commission file number 1-8198

HSBC FINANCE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**86-1052062**
(State of Incorporation)	**(I.R.S. Employer Identification No.)**
26525 North Riverwoods Boulevard, Mettawa, Illinois	**60045**
(Address of principal executive offices)	**(Zip Code)**

(224) 544-2000

Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes
R
No
o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes
o
No
o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company
o	o	R	o
		(Do not check if a smaller reporting company)	

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes
o
No
R

As of April 30, 2010, there were 65 shares of the registrant's common stock outstanding, all of which are owned by HSBC Investments (North America) Inc.

HSBC FINANCE CORPORATION

FORM 10-Q

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Financial Statements

CONSOLIDATED STATEMENT OF INCOME (LOSS) (UNAUDITED)

Three Months Ended March 31,	**2010**	**2009**
	(in millions)	
Finance and other interest income	**$2,071**	$2,846
Interest expense on debt held by:		
HSBC affiliates	**39**	95
Non-affiliates	**828**	1,072
Net interest income	**1,204**	1,679
Provision for credit losses	**1,919**	2,945
Net interest income (loss) after provision for credit losses	(715)	(1,266)
Other revenues:		
Insurance revenue	**68**	93
Investment income	**27**	27
Net other-than-temporary impairment losses	**-**	(20)
Derivative related income (expense)	**(102)**	38
Gain on debt designated at fair value and related derivatives	**133**	4,112
Fee income	**89**	228
Enhancement services revenue	**103**	135
Taxpayer financial services revenue	**29**	90
Gain on bulk receivable sales to HSBC affiliates	**-**	57
Gain on receivable sales to HSBC affiliates	**116**	128
Servicing and other fees from HSBC affiliates	**238**	204
Lower of cost or fair value adjustment on receivables held for sale	**-**	(170)
Other income	**10**	46
Total other revenues	**711**	4,968
Operating expenses:		
Salaries and employee benefits	**176**	420
Occupancy and equipment expenses, net	**29**	102
Other marketing expenses	**57**	50
Real estate owned expenses	**39**	105
Other servicing and administrative expenses	**249**	266
Support services from HSBC affiliates	**298**	268
Amortization of intangibles	**39**	42
Policyholders' benefits	**42**	55

Goodwill and other intangible asset impairment charges	**-**	667
Total operating expenses	**929**	1,975
Income (loss) before income tax expense (benefit)	**(933)**	1,727
Income tax benefit (expense)	**330**	(855)
Net income (loss)	$(603)	$872

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET (UNAUDITED)

	March 31, 2010	December 31, 2009
	(in millions, except share data)	
Assets		
Cash	**$189**	$311
Interest bearing deposits with banks	**10**	17
Securities purchased under agreements to resell	**5,186**	2,850
Securities available-for-sale	**3,195**	3,187
Receivables, net (including $7.5 billion and $8.0 billion at March 31, 2010 and December 31, 2009, respectively, collateralizing long-term debt)	**73,516**	78,131
Receivables held for sale	**3**	536
Intangible assets, net	**709**	748
Properties and equipment, net	**198**	201
Real estate owned	**661**	592
Derivative financial assets	**-**	-
Deferred income taxes, net	**2,848**	3,014
Other assets	**3,561**	4,966
Total assets	**$90,076**	$94,553
Liabilities		
Debt:		
Due to affiliates	**$9,023**	$9,043
Commercial paper	**3,700**	4,291
Long-term debt (including $26.7 billion at March 31, 2010 and December 31, 2009 carried at fair value and long-term debt collateralized by receivables of $5.1 billion and $5.5 billion at March 31, 2010 and December 31, 2009, respectively)	**66,488**	69,658
Total debt	**79,211**	82,992
Insurance policy and claim reserves	**996**	996
Derivative related liabilities	**45**	60
Liability for post-retirement benefits	**263**	268
Other liabilities	**1,791**	1,858
Total liabilities	**82,306**	86,174
Shareholders' equity		
Redeemable preferred stock, 1,501,100 shares authorized, Series B, $0.01 par value, 575,000 shares issued	**575**	575
Common shareholder's equity:		
	-	-

Common stock, $0.01 par value, 100 shares authorized, 65 shares issued at March 31, 2010 and December 31, 2009		
Additional paid-in capital	**23,120**	23,119
Accumulated deficit	**(15,344)**	(14,732)
Accumulated other comprehensive loss	(581)	(583)
Total common shareholder's equity	**7,195**	7,804
Total liabilities and shareholders' equity	**$90,076**	$94,553

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

Three Months Ended March 31,	2010	2009
	(in millions)	
Preferred stock		
Balance at beginning and end of period	**$575**	$575
Common shareholder's equity		
Additional paid-in capital		
Balance at beginning of period	**$23,119**	$21,485
Capital contribution from parent company	**-**	1,155
Return of capital to parent company	**-**	(1,043)
Employee benefit plans, including transfers and other	**1**	(5)
Balance at end of period	**$23,120**	$21,592
Accumulated deficit		
Balance at beginning of period	**$(14,732)**	$(7,245)
Net income (loss)	**(603)**	872
Dividends:		
Preferred stock	(9)	(9)
Balance at end of period	$(15,344)	$(6,382)
Accumulated other comprehensive loss		
Balance at beginning of period	**$(583)**	$(1,378)
Net change in unrealized gains (losses), net of tax, on:		
Derivatives classified as cash flow hedges	**(7)**	270
Securities available-for-sale, not other-than-temporarily impaired	**11**	(22)
Other-than-temporarily impaired debt securities available- for-sale(1)	**1**	-
Postretirement benefit plan adjustment, net of tax	**1**	16
Foreign currency translation adjustments	(4)	(4)
Other comprehensive income, net of tax	**2**	260
Balance at end of period	$(581)	$(1,118)
Total common shareholder's equity	**$7,195**	$14,092
Comprehensive income (loss)		
Net income (loss)	**$(603)**	$872
Other comprehensive income	**2**	260
Comprehensive income (loss)	$(601)	$1,132

(1) During the three months ended March 31, 2010, gross other-than-temporary impairment ("OTTI") recoveries on available-for-sale securities totaled $1 million relating to the non-credit component of OTTI previously recorded in accumulated other comprehensive income.

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

Three Months Ended March 31,	**2010**	**2009**
	(in millions)	
Cash flows from operating activities		
Net income (loss)	**$(603)**	$872
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Provision for credit losses	**1,919**	2,945
Gain on bulk sale of receivables to HSBC Bank USA, National Association ("HSBC Bank USA")	**-**	(57)
Gain on receivable sales to HSBC affiliates	**(116)**	(128)
Goodwill and other intangible impairment	**-**	667
Loss on sale of real estate owned, including lower of cost or market adjustments	**10**	84
Insurance policy and claim reserves	**(12)**	(2)
Depreciation and amortization	**45**	55
Mark-to-market on debt designated at fair value and related derivatives	**78**	(3,992)
Originations of loans held for sale	**(7,834)**	(8,791)
Sales and collections on loans held for sale	**7,950**	9,043
Purchase of auto finance receivables from HSBC Bank USA for immediate sale	**(379)**	-
Cash proceeds from sale of auto finance receivables	**379**	-
Foreign exchange and derivative movements on long-term debt and net change in non-FVO related derivative assets and liabilities	**(844)**	(1,342)
Other-than-temporary impairment on securities	**-**	20
Lower of cost or fair value on receivables held for sale	**-**	170
Net change in other assets	**1,553**	2,338
Net change in other liabilities	**(70)**	(15)
Other, net	**181**	126
Net cash provided by operating activities	**2,257**	1,993
Cash flows from investing activities		
Securities:		
Purchased	**(304)**	(179)
Matured	**136**	124
Sold	**74**	10
Net change in short-term securities available-for-sale	**111**	106
Net change in securities purchased under agreements to resell	**(2,336)**	(4,576)
Net change in interest bearing deposits with banks	**7**	3
Receivables:		
Net (originations) collections	**2,161**	2,568
Purchases and related premiums	**(11)**	(10)
Proceeds from sales of real estate owned	**293**	399
Cash received from bulk sales of receivables to HSBC Bank USA	**-**	8,821
Cash received in sale of auto finance servicing operations and receivables held for sale	**551**	-
Purchases of properties and equipment	(5	(9

Net cash provided by investing activities	**677**)	7,257)

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED) (Continued)

Three Months Ended March 31,	**2010**	**2009**
	(in millions)	
Cash flows from financing activities		
Debt:		
Net change in short-term debt	**(591)**	(4,366)
Net change in due to affiliates	**(20)**	(1,051)
Long-term debt issued	**119**	1,600
Long-term debt retired	**(2,551)**	(5,155)
Insurance:		
Policyholders' benefits paid	**(19)**	(21)
Cash received from policyholders	**15**	14
Capital contribution from parent	**-**	880
Return of capital to parent	**-**	(1,043)
Shareholder's dividends	(9)	(9)
Net cash used in financing activities	(3,056)	(9,151)
Net change in cash	**(122)**	99
Cash at beginning of period	**311**	255
Cash at end of period	**$189**	$354
Supplemental Noncash Investing and Capital Activities:		
Fair value of properties added to real estate owned	**$372**	$363
Extinguishment of indebtedness related to bulk receivable sale	**$-**	$(6,077)
Redemption of the junior subordinated notes underlying the mandatorily redeemable preferred securities of the Household Capital Trust VIII for common stock	**$-**	$275

The accompanying notes are an integral part of the consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Basis of Presentation

HSBC Finance Corporation is an indirect wholly owned subsidiary of HSBC North America Holdings Inc. ("HSBC North America"), which is an indirect wholly owned subsidiary of HSBC Holdings plc ("HSBC"). The accompanying unaudited interim consolidated financial statements of HSBC Finance Corporation and its subsidiaries have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all normal and recurring adjustments considered necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods have been made. HSBC Finance Corporation and its subsidiaries may also be referred to in this Form 10-Q as "we," "us" or "our." These unaudited interim consolidated financial statements should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2009 (the "2009 Form 10-K"). Certain reclassifications have been made to prior period amounts to conform to the current period presentation.

The consolidated financial statements have been prepared on the basis that we will continue as a going concern. Such assertion contemplates the significant losses recognized in recent years and the challenges we anticipate with respect to a sustainable return to profitability under prevailing economic conditions. HSBC continues to be fully committed and has the capacity and willingness to continue to provide the necessary capital and liquidity to fund our operations.

The preparation of financial statements in conformity with U.S. GAAP requires the use of estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates. Interim results should not be considered indicative of results in future periods.

During the first quarter of 2010, we adopted new accounting guidance on the consolidation of variable interest entities ("VIEs") and new disclosure requirements relating to fair value measurements. See Note 19, "New Accounting Pronouncements" for further details and related impacts.

2. Sale of Auto Finance Servicing Operations and Certain Auto Finance Receivables

In March 2010, we sold our auto finance receivable servicing operations as well as both delinquent and non-delinquent auto finance receivables with a carrying value of $927 million (par value of $1.0 billion), of which $379 million was purchased from HSBC Bank USA immediately prior to the sale at estimated fair value, to Santander Consumer USA Inc. ("SC USA") for $930 million in cash. Under the terms of the agreement, our auto finance receivable servicing facilities in San Diego, California and Lewisville, Texas were assigned to SC USA and the majority of the employees from those locations were offered the opportunity to transfer to SC USA at the time of close. SC USA will service the remainder of our auto finance receivable portfolio as well as the auto finance receivable portfolio we had previously serviced for

HSBC Bank USA. As the receivables sold were previously classified as held for sale and written down to the lower of cost or fair value, we recorded a gain of $5 million ($3 million after-tax) during the first quarter of 2010 which primarily related to the sale of the auto servicing platform and reversal of certain accruals related to leases assumed by SC USA. While this business is currently operating in run-off mode, we will not report it as a discontinued operation after this transaction because we will continue to generate cash flow from the on-going collection of the receivables, including interest and fees.

3. Strategic Initiatives

As discussed in prior filings, we have been engaged in a continuing, comprehensive evaluation of the strategies and opportunities of our operations. In light of the unprecedented developments in the retail credit markets, particularly in the residential mortgage industry, this evaluation resulted in decisions to lower the risk profile of our operations, to reduce our capital and liquidity requirements by reducing the size of our balance sheet and to rationalize and maximize the efficiency of our operations. As a result, a number of strategic actions have been undertaken beginning in mid-2007 which are summarized below:

2009 Strategic Initiatives
During 2009, we undertook a number of actions including the following:

> In November 2009, we entered into an agreement to sell our auto finance receivable serving operations and certain auto finance receivables. See Note 2, "Sale of Auto Finance Servicing Operations and Certain Auto Finance Receivables," for further discussion regarding this transaction.

> Throughout 2009, we decided to exit certain lease arrangements and consolidate a variety of locations across the United States. As a result, we have or will exit certain facilities and/or significantly reduce our occupancy space over the next 9 to 15 months in the following locations: Bridgewater, New Jersey; Minnetonka, Minnesota; Wood Dale, Illinois; Elmhurst, Illinois; Sioux Falls, South Dakota and Tampa, Florida. Additionally, we have consolidated our operations in Virginia Beach, Virginia into our Chesapeake, Virginia facility and consolidated certain servicing functions currently performed in Brandon, Florida to facilities in Buffalo, New York and Elmhurst, Illinois.

> In late February 2009, we decided to discontinue new customer account originations for all products by our Consumer Lending business and close all branch offices.

Summary of Restructuring Liability Related to 2009 Strategic Initiatives
The following summarizes the changes in the restructure liability during the three months ended March 31, 2010 and 2009, respectively, relating to actions implemented during 2009:

	One-Time Termination and Other Employee Benefits	Lease Termination and Associated Costs	Other	Total
		(in millions)		
Three months ended March 31, 2010				
Restructuring liability at January 1, 2010	$13	$12	$2	$27
Restructuring costs recorded during the period	1	-	-	1
Restructuring costs paid during the period	(3)	(5)	-	(8)
Adjustments to the restructure liability during the period	-	1	-	1
Restructure liability at March 31, 2010	$11	$8	$2	$21
Three months ended March 31, 2009				

Restructuring liability at January 1, 2009	$-	$-	$-	$-
Restructuring costs recorded during the period	87	54	14	155
Restructuring costs paid during the period	-	(4)	(1)	(5)
Restructure liability at March 31, 2009	$87	$50	$13	$150

2008 Strategic Initiatives
During 2008, we undertook a number of actions including the following:

> During the third quarter of 2008, closed servicing facilities located in Jacksonville, Florida and White Marsh, Maryland in our Card and Retail Services business and redeployed these activities to other facilities in our Card and Retail Services business.

> Reduced headcount in our Card and Retail Services business during the fourth quarter of 2008;

> In March 2008, reduced the size of our Auto Finance business and in July 2008 discontinued all new auto finance originations from our dealer and direct-to-consumer channels; and

> Ceased operations of Solstice Capital Group, Inc, a subsidiary of our Consumer Lending business which originated real estate secured receivables for resale.

Summary of Restructuring Liability Related to 2008 Strategic Initiatives
The following summarizes the changes in the restructure liability during the three months ended March 31, 2010 and 2009 relating to the actions implemented during 2008:

	One-Time Termination and Other Employee Benefits	Lease Termination and Associated Costs	Total
	(in millions)		
Three months ended March 31, 2010:			
Restructure liability at January 1, 2010	**$-**	**$4**	**$4**
Restructuring costs recorded during the period	**-**	**-**	**-**
Restructuring costs paid during the period	**-**	**(1)**	**(1)**
Liability assumed by third party(1)	**-**	(1)	(1)
Restructure liability at March 31, 2010	**$-**	**$2**	**$2**
Three months ended March 31, 2009:			
Restructure liability at January 1, 2009	$10	$10	$20
Restructuring costs recorded during the period	1	-	1
Restructuring costs paid during the period	(8)	(1)	(9)
Restructure liability at March 31, 2009	$3	$9	$12

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(1) During the first quarter of 2010, certain leases of our auto finance operations were assumed by SC USA. See Note 2, "Sale of Auto Finance Servicing Operations and Certain Auto Finance Receivables," for additional information regarding this transaction.

2007 Actions
Beginning in mid-2007 we undertook a number of actions including the following:

> Discontinued correspondent channel acquisitions of our Mortgage Services business;

> Ceased operations of Decision One Mortgage Company;

> Reduced the Consumer Lending branch network to approximately 1,000 branches at December 31, 2007; and

> Closed our loan underwriting, processing and collections center in Carmel, Indiana.

The following summarizes the changes in the restructure liability during the three months ended March 31, 2010 and 2009 relating to the actions implemented during 2007:

	One-Time Termination and Other Employee Benefits	Lease Termination and Associated Costs	Total
	(in millions)		
Three months ended March 31, 2010:			
Restructure liability at January 1, 2010	**$-**	**$14**	**$14**
Restructuring costs recorded during the period	**-**	-	-
Restructuring costs paid during the period	**-**	-	-
Restructure liability at March 31, 2010	**$-**	**$14**	**$14**
Three months ended March 31, 2009:			
Restructure liability at January 1, 2009	$1	$17	$18
Restructuring costs recorded during the period	-	-	-
Restructuring costs paid during the period	(1)	(1)	(2)
Restructure liability at March 31, 2009	$-	$16	$16

Summary of Restructuring Activities

The following table summarizes the net cash and non-cash expenses recorded for all restructuring activities during the three months ended March 31, 2010 and 2009:

	One-Time Termination and Other Employee Benefits(1)	Lease Termination and Associated Costs(2)	Other(3)	Fixed Assets and Other Non-Cash Adjustments(4)	Total
	(in millions)				
Three months ended March 31, 2010:					
Consumer Lending closure	**$1**	**$1**	**$-**	**$-**	**$2**
Three months ended March 31, 2009:					
Auto Finance	$1	$-	$-	$-	$1
Consumer Lending closure(5)	87	54	14	14	169
	$88	$54	$14	$14	$170

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(1)

Note

One-time termination and other employee benefits are included as a component of Salaries and employee benefits in the consolidated statement of income (loss).

(2) Lease termination and associated costs are included as a component of Occupancy and equipment expenses in the consolidated statement of income (loss).

(3) The other expenses are included as a component of Other servicing and administrative expenses in the consolidated statement of income (loss).

(4) Includes $29 million of fixed asset write offs during the three months ended March 31, 2009, which were recorded as a component of Other servicing and administrative expenses in the consolidated statement of income (loss). The three months ended March 31, 2009 also includes $3 million relating to stock based compensation and other benefits, a curtailment gain of $16 million and a reduction of pension expense of $2 million which were recorded as a component of Salaries and employee benefits in the consolidated statement of income (loss).

(5) Excludes intangible asset impairment charges of $14 million recorded during the three months ended March 31, 2009.

4. Securities

Securities consisted of the following available-for-sale investments:

March 31, 2010	**Amortized Cost**	**Non-Credit Loss Component of OTTI Securities(4)**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
		(in millions)			
U.S. Treasury	**$425**	**$-**	**$1**	**$-**	**$426**
U.S. government sponsored enterprises(1)	**134**	**-**	**4**	**(1)**	**137**
U.S. government agency issued or guaranteed	**17**	**-**	**1**	**-**	**18**
Obligations of U.S. states and political subdivisions	**30**	**-**	**1**	**-**	**31**
Asset-backed securities(2)	**87**	**(10)**	**2**	**-**	**79**
U.S. corporate debt securities(3)	**1,621**	**-**	**68**	**(13)**	**1,676**
Foreign debt securities	**346**	**-**	**15**	**(1)**	**360**
Equity securities	**12**	**-**	**-**	**-**	**12**
Money market funds	**425**	**-**	**-**	**-**	**425**
Subtotal	**3,097**	**(10)**	**92**	**(15)**	**3,164**
Accrued investment income	**31**	**-**	**-**	**-**	**31**
Total securities available-for-sale	**$3,128**	$(10)	**$92**	$(15)	**$3,195**

	Amortized Cost	**Non-Credit Loss Component of OTTI Securities(4)**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**

December 31, 2009

		(in millions)			
U.S. Treasury	$196	$-	$1	$(1)	$196
U.S. government sponsored enterprises(1)	95	-	3	(1)	97
U.S. government agency issued or guaranteed	20	-	1	-	21
Obligations of U.S. states and political subdivisions	31	-	1	-	32
Asset-backed securities(2)	94	(11)	2	(2)	83
U.S. corporate debt securities(3)	1,684	-	60	(20)	1,724
Foreign debt securities	351	-	15	-	366
Equity securities	12	-	-	-	12
Money market funds	627	-	-	-	627
Subtotal	3,110	(11)	83	(24)	3,158
Accrued investment income	29	-	-	-	29
Total securities available-for-sale	$3,139	$(11)	$83	$(24)	$3,187

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(1) Includes $55 million and $65 million of mortgage-backed securities issued by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation as of March 31, 2010 and December 31, 2009, respectively.

(2) The majority of our asset-backed securities are residential mortgage-backed securities at March 31, 2010 and December 31, 2009.

(3) At March 31, 2010 and December 31, 2009, the majority of our U.S. corporate debt securities represent investments in the financial services, consumer products, healthcare and industrials sectors.

(4) For available-for-sale debt securities which are other-than-temporarily impaired, the non-credit loss component of other-than-temporarily impairment ("OTTI") is recorded in accumulated other comprehensive income.

A summary of gross unrealized losses and related fair values as of March 31, 2010 and December 31, 2009, classified as to the length of time the losses have existed follows:

	Less Than One Year			Greater Than One Year		
March 31, 2010	**Number of Securities**	**Gross Unrealized Losses**	**Aggregate Fair Value of Investments**	**Number of Securities**	**Gross Unrealized Losses**	**Aggregate Fair Value of Investments**
			(dollars are in millions)			
U.S. Treasury	**16**	**$-**	**$174**	**-**	**$-**	**$-**
U.S. government sponsored enterprises	**8**	**-**	**36**	**1**	**(1)**	**4**
U.S. government agency issued or guaranteed	**-**	**-**	**-**	**-**	**-**	**-**
Obligations of U.S. states and political subdivisions	**-**	**-**	**-**	**1**	**-**	**-**
Asset-backed securities	**3**	**-**	**3**	**19**	**(10)**	**35**
	57	**(3)**	**165**	**43**	**(10)**	**142**

U.S. corporate debt securities						
Foreign debt securities	**14**	(1)	**51**	**-**	**-**	**-**
	98	$(4)	**$429**	**64**	$(21)	**$181**

	Less Than One Year			**Greater Than One Year**		
December 31, 2009	**Number of Securities**	**Gross Unrealized Losses**	**Aggregate Fair Value of Investments**	**Number of Securities**	**Gross Unrealized Losses**	**Aggregate Fair Value of Investments**
			(dollars are in millions)			
U.S. Treasury	17	$(1)	$97	-	$-	$-
U.S. government sponsored enterprises	1	-	5	1	(1)	4
U.S. government agency issued or guaranteed	-	-	-	-	-	-
Obligations of U.S. states and political subdivisions	-	-	-	1	-	-
Asset-backed securities	7	(1)	10	18	(12)	34
U.S. corporate debt securities	59	(3)	170	50	(17)	150
Foreign debt securities	12	-	33	-	-	-
	96	$(5)	$315	70	$(30)	$188

Gross unrealized losses decreased during the first quarter of 2010 primarily due to the impact of lower credit spreads and interest rates. We have reviewed our securities for which there is an unrealized loss in accordance with our accounting policies for other-than-temporary impairment. Although no other-than-temporary impairments were recorded during the first quarter of 2010, we did recognize a $1 million recovery in accumulated other comprehensive income relating to the non-credit component of other-than-temporary impairment previously recognized in accumulated other comprehensive income.

Our decision in the first quarter of 2009 to discontinue new customer account originations in our Consumer Lending business adversely impacted certain insurance subsidiaries that hold perpetual preferred securities. Therefore, during the first quarter of 2009 we determined it was more-likely-than-not that we would be required to sell the portfolio of perpetual preferred securities prior to recovery of amortized cost and, therefore, these securities were deemed to be other-than-temporarily impaired. We subsequently sold our entire portfolio of perpetual preferred securities during the second quarter of 2009. Prior to their sale, we recorded $20 million of impairment losses in the first quarter of 2009 related to these perpetual preferred securities as a component of investment income. The entire unrealized loss was recorded in earnings in accordance with new accounting guidance which we early adopted effective January 1, 2009 related to the recognition of other-than-temporary impairment and is described more fully below, as we determined it was more-likely-than-not that we would be required to sell the portfolio of perpetual preferred securities prior to recovery of amortized cost.

On-Going Assessment for Other-Than-Temporary Impairment

On a quarterly basis, we perform an assessment to determine whether there have been any events or economic circumstances to indicate that a security with an unrealized loss has suffered other-than-temporary impairment. A debt security is considered impaired if the fair value is less than its amortized cost basis at the reporting date. If impaired, we then assess whether the unrealized loss is other-than-temporary.

An unrealized loss is generally deemed to be other-than-temporary and a credit loss is deemed to exist if the present value of the expected future cash flows is less than the amortized cost basis of the debt security. As a result, the credit loss component of an other-than-temporary impairment write-down for debt securities is recorded in earnings while the remaining portion of the impairment loss is recognized net of tax in other comprehensive income (loss) provided we do not intend to sell the underlying debt security and it is more-likely-than-not that we would not have to sell the debt security prior to recovery.

For all our debt securities, as of the reporting date we do not have the intention to sell these securities and believe we will not be required to sell these securities for contractual, regulatory or liquidity reasons.

We consider the following factors in determining whether a credit loss exists and the period over which the debt security is expected to recover:

- The length of time and the extent to which the fair value has been less than the amortized cost basis;

- The level of credit enhancement provided by the structure which includes, but is not limited to, credit subordination positions, overcollateralization, protective triggers and financial guarantees provided by monoline wraps;

- Changes in the near term prospects of the issuer or underlying collateral of a security, such as changes in default rates, loss severities given default and significant changes in prepayment assumptions;

- The level of excess cash flows generated from the underlying collateral supporting the principal and interest payments of the debt securities; and

- Any adverse change to the credit conditions of the issuer or the security such as credit downgrades by the rating agencies.

At March 31, 2010, approximately 92 percent of our corporate debt securities are rated A- or better and approximately 66 percent of our asset-backed securities, which totaled $79 million are rated "AAA." Although no other-than-temporary impairments were recorded during the first quarter of 2010, without a sustained economic recovery, other-than-temporary impairments may occur in future periods.

Proceeds from the sale or call of available-for-sale investments totaled $74 million and $10 million during the three months ended March 31, 2010 and 2009, respectively. We realized gross gains of $3 million and $1 million during the three months ended March 31, 2010 and 2009, respectively. We realized gross losses of less than $1 million during the three months ended March 31, 2010 and 2009.

Contractual maturities of and yields on investments in debt securities for those with set maturities were as follows:

	At March 31, 2010				
	Due Within 1 Year	After 1 but Within 5 Years	After 5 but Within 10 Years	After 10 Years	Total
	(dollars are in millions)				
U.S. Treasury:					
Amortized cost	$145	$279	$1	$-	$425
Fair value	145	280	1	-	426

Yield(1)	.20%	2.00%	4.96%	-	1.39%
U.S. government sponsored enterprises:					
Amortized cost	$50	$7	$38	$39	$134
Fair value	50	7	40	40	137
Yield(1)	.26%	5.30%	4.74%	4.93%	3.15%
U.S. government agency issued or guaranteed:					
Amortized cost	$-	$-	$-	$17	$17
Fair value	-	-	-	18	18
Yield(1)	-	-	-	5.06%	5.06%
Obligations of U.S. states and political subdivisions:					
Amortized cost	$-	$-	$12	$18	$30
Fair value	-	-	12	19	31
Yield(1)	-	-	4.07%	4.06%	4.06%
Asset-backed securities:					
Amortized cost	$-	$20	$15	$52	$87
Fair value	-	22	15	42	79
Yield(1)	-	4.92%	5.13%	3.06%	3.85%
U.S. corporate debt securities:					
Amortized cost	$120	$759	$211	$531	$1,621
Fair value	123	804	218	531	1,676
Yield(1)	4.50%	4.83%	4.71%	5.36%	4.96%
Foreign debt securities:					
Amortized cost	$23	$235	$53	$35	$346
Fair value	23	247	53	37	360
Yield(1)	3.28%	4.36%	3.58%	6.43%	4.38%

(1) Computed by dividing annualized interest by the amortized cost of respective investment securities.

5. Receivables

Receivables consisted of the following:

	March 31, 2010	**December 31, 2009**
	(in millions)	
Real estate secured	**$56,900**	$59,535
Auto finance	**3,346**	3,961
Credit card	**10,597**	11,626
Personal non-credit card	**9,423**	10,486
Commercial and other	**48**	50
Total receivables	**80,314**	85,658
HSBC acquisition purchase accounting fair value adjustments	**(10)**	(11)
Accrued finance charges	**1,794**	1,929
Credit loss reserve for receivables	**(8,417)**	(9,264)
Unearned credit insurance premiums and claims reserves	(165)	(181)
Total receivables, net	**$73,516**	$78,131

Secured financings of $5.1 billion at March 31, 2010 are secured by $7.5 billion of closed-end real estate secured and auto finance receivables. Secured financings of $5.5 billion at December 31, 2009 were secured by $8.0 billion of closed-end real estate secured and auto finance receivables.

HSBC acquisition purchase accounting fair value adjustments represent adjustments which have been "pushed down" to record our receivables at fair value on March 28, 2003, the date we were acquired by HSBC.

Purchased Receivable Portfolios

In November 2006, we acquired $2.5 billion of real estate secured receivables from Champion Mortgage ("Champion") a division of KeyBank, N.A. Receivables purchased for which at the time of acquisition there was evidence of deterioration in credit quality since origination and for which it was probable that all contractually required payments would not be collected and that the associated line of credit had been closed, if applicable, were recorded at an amount dependent upon the cash flows expected to be collected at the time of acquisition ("Purchased Credit-Impaired Receivables"). The difference between these expected cash flows and the purchase price represents an accretable yield which is amortized to interest income over the life of the receivable. The carrying amount of Champion real estate secured receivables subject to these accounting requirements was $33 million and $36 million at March 31, 2010 and December 31, 2009, respectively, and is included in the real estate secured receivables in the table above. The outstanding contractual balance of these receivables was $63 million and $66 million at March 31, 2010 and December 31, 2009, respectively. Credit loss reserves of $29 million and $31 million as of March 31, 2010 and December 31, 2009, respectively, were held for the acquired Champion receivables subject to accounting requirements for Purchased Credit-Impaired Receivables due to a decrease in the expected future cash flows since the acquisition.

As part of our acquisition of Metris Companies Inc. ("Metris") on December 1, 2005, we acquired $5.3 billion of credit card receivables some of which were also subject to the accounting requirements for Purchased Credit- Impaired Receivables as described above. During the fourth quarter of 2009, the accretable yield was fully amortized to interest income and there was no remaining difference between the carrying value and the outstanding contractual balances of these Purchased Credit-Impaired Receivables. At March 31, 2010 and December 31, 2009, we no longer have any receivables acquired from Metris which are subject to these accounting requirements.

The following summarizes the accretable yield on Champion during the three months ended March 31, 2010 and for the Champion and Metris receivables during the three months ended March 31, 2009:

Three Months Ended March 31,	**2010(1)(2)**	**2009(1)(2)**
	(in millions)	
Accretable yield at beginning of period	**$(13)**	$(28)
Accretable yield amortized to interest income during the period	**1**	7
Reclassification of non-accretable difference(3)	**2**	(8)
Accretable yield at end of period(4)	$(10)	$(29)

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(1) For the Champion portfolio, there was a reclassification of non-accretable difference of $2 million during the three months ended March 31, 2010. During the three months ended March 31, 2009, there were no reclassifications of non-accretable difference.

(2)

For the Metris portfolio, there was a reclassification of non-accretable difference of $8 million during the three months ended March 31, 2009.

(3) Reclassification (from) non-accretable difference represents an increase to the estimated cash flows to be collected on the underlying portfolio and reclassification to non-accretable difference represents a decrease to the estimated cash flows to be collected on the underlying portfolio.

(4) At March 31, 2010, the entire remaining accretable yield is related to the Champion portfolio. The accretable yield related to the Metris portfolio was fully amortized to interest income during the fourth quarter of 2009.

Collateralized funding transactions
We maintain a secured conduit credit facility with commercial banks which provides for secured financing of receivables on a revolving basis totaling $400 million. Of the amount available under this facility, no amounts were utilized at March 31, 2010 or December 31, 2009. The amount available under these facilities will vary based on the timing and volume of secured financing transactions and our general liquidity plans.

Troubled Debt Restructurings
The following table presents information about our TDR Loans:

	March 31, 2010	**December 31, 2009**
	(in millions)	
TDR Loans(1):		
Real estate secured(2):		
Mortgage Services	**$4,522**	$4,350
Consumer Lending	**5,244**	4,776
Total real estate secured	**9,766**	9,126
Auto finance	**217**	284
Credit card	**485**	473
Personal non-credit card	**751**	726
Total TDR Loans	**$11,219**	$10,609

	March 31, 2010	**December 31, 2009**
	(in millions)	
Credit loss reserves for TDR Loans:		
Real estate secured:		
Mortgage Services	**$1,225**	$1,137
Consumer Lending	**1,081**	1,002
Total real estate secured	**2,306**	2,139
Auto finance	**57**	61
Credit card	**162**	158
Personal non-credit card	**448**	353
Total credit loss reserves for TDR Loans(3)	**$2,973**	$2,711

(1) Includes TDR balances reported as receivables held for sale for which there are no credit loss reserves as they are carried at the lower of cost or fair value. At March 31, 2010, there were no TDR loans

included in receivables held for sale. At December 31, 2009, TDR Loans included $53 million of auto finance receivables held for sale.

(2) At March 31, 2010 and December 31, 2009, TDR Loans totaling $1.0 billion and $773 million, respectively, are recorded at net realizable value less cost to sell and, therefore, have no credit loss reserve associated with them.

(3) Included in credit loss reserves.

Three Months Ended March 31,	2010	2009
	(in millions)	
Average balance of TDR Loans(1)	**$10,982**	$5,528
Interest income recognized on TDR Loans	**145**	96

(1) During the third and fourth quarters of 2009, we developed enhanced tracking capabilities to identify and report TDR Loans which impacts the comparability between the periods reported above. See Note 7, "Receivables," in our 2009 Form 10-K for further discussion of these enhanced tracking capabilities.

Concentrations of Credit Risk

We have historically served non-conforming and non-prime consumers. Such customers are individuals who have limited credit histories, modest incomes, high debt-to-income ratios or have experienced credit problems caused by occasional delinquencies, prior charge-offs, bankruptcy or other credit related actions. The majority of our secured receivables and receivables held for sale have high loan-to-value ratios. Our receivables and receivables held for sale portfolios include the following types of loans:

• Interest-only loans - A loan which allows a customer to pay the interest-only portion of the monthly payment for a period of time which results in lower payments during the initial loan period. However, subsequent events affecting a customer's financial position could affect their ability to repay the loan in the future when the principal payments are required.

• ARM loans - A loan which allows the lender to adjust pricing on the loan in line with interest rate movements. A customer's financial situation and the general interest rate environment at the time of the interest rate reset could affect the customer's ability to repay or refinance the loan after adjustment.

• Stated income loans - Loans underwritten based upon the loan applicant's representation of annual income, which is not verified by receipt of supporting documentation.

The following table summarizes the outstanding balances of interest-only loans, ARM loans and stated income loans in our receivable portfolios at March 31, 2010 and December 31, 2009:

	March 31, 2010	December 31, 2009
	(in billions)	
Interest-only loans	**$1.3**	$1.4
ARM loans(1)(2)	**9.3**	9.8
Stated income loans	**3.4**	3.7

(1) ARM loans with initial reset dates after March 31, 2010 are not significant.

(2) We do not have any option ARM loans in our portfolio.

At March 31, 2010 and December 31, 2009, interest-only, ARM and stated income loans comprise 19 percent and 20 percent of real estate secured receivables, including receivables held for sale, respectively.

6. Credit Loss Reserves

An analysis of credit loss reserves was as follows:

Three Months Ended March 31,	2010	2009
	(in millions)	
Credit loss reserves at beginning of period	**$9,264**	$12,415
Provision for credit losses	**1,919**	2,945
Charge-offs	**(2,963)**	(2,523)
Recoveries	**197**	135
Credit loss reserves at end of period	**$8,417**	$12,972

Credit loss reserves since March 31, 2009 were significantly impacted by changes in our charge-off policies for real estate secured, personal non-credit card and auto finance receivables which impacts comparability between periods. See Note 8, "Changes in Charge-off Policies," in our 2009 Form 10-K for further discussion.

7. Receivables Held for Sale

Receivables held for sale, which are carried at the lower of cost or fair value, consisted of the following:

	March 31, 2010	December 31, 2009
	(in millions)	
Real estate secured(1)	**$3**	$3
Auto finance	**-**	533
Total receivables held for sale, net	**$3**	$536

(1) Consists of real estate secured receivables in our Mortgage Services which were originated with the intent to sell.

The following table shows the activity in receivables held for sale during the three months ended March 31, 2010 and 2009:

Three Months Ended March 31,	2010	2009
Receivables held for sale, beginning of period	**$536**	$16,680
Receivables purchased from HSBC USA Inc for immediate sale to SC USA(1)	**379**	-
Transfer of auto finance receivables into receivables held for sale at the lower of cost or fair value	**15**	-
Receivable sales	**(927)**	(14,850)
Additional lower of cost or fair value adjustment subsequent to transfer to receivables held for sale	**-**	(170)
	-	(214)

Transfer of real estate secured receivables into receivables held for investment at the lower of cost or fair value		
Net change in receivable balance	-	(37)
Receivables held for sale, end of period	$3	$1,409

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(1) See Note 2, "Sale of Auto Finance Servicing Operations and Certain Auto Finance Receivables," for additional information regarding this transaction.

In March 2010, we sold a portfolio of auto finance receivables to SC USA. See Note 2, "Sale of Auto Finance Servicing Operations and Certain Auto Finance Receivables," for details of this transaction.

In January 2009, we sold our GM and UP Portfolios as well as certain auto finance receivables to HSBC Bank USA. See Note 4, "Receivable Portfolio Sales to HSBC Bank USA," in our 2009 Form 10-K for details of these transactions.

In March 2009, we transferred real estate secured receivables previously classified as receivables held for sale to receivables held for investment as we now intend to hold these receivables for the foreseeable future, generally twelve months for real estate secured receivables. These receivables were transferred at the fair market value as of the date of transfer of $214 million. The outstanding contractual balance of these receivables was $278 million at March 31, 2009.

The valuation allowance on receivables held for sale was $6 million and $18 million at March 31, 2010 and December 31, 2009, respectively.

8. Intangible Assets

Intangible assets consisted of the following:

	Gross	Cumulative Impairment Charges	Accumulated Amortization	Carrying Value
		(in millions)		
March 31, 2010				
Purchased credit card relationships and related programs	**$1,736**	**$-**	**$1,027**	**$709**
Consumer loan related relationships	**333**	**163**	**170**	**-**
Technology, customer lists and other contracts	**282**	**9**	**273**	**-**
Total	**$2,351**	**$172**	**$1,470**	**$709**
December 31, 2009				
Purchased credit card relationships and related programs	$1,736	$-	$992	$744
Consumer loan related relationships	333	163	170	-
Technology, customer lists and other contracts	282	9	269	4
Total	$2,351	$172	$1,431	$748

Estimated amortization expense associated with our intangible assets for each of the following years is as follows:

Year Ending December 31,	(in millions)
2010	$142

2011	138
2012	135
2013	99
2014	72

During the first quarter of 2010, our intangible assets related to technology, customer lists and other contracts became fully amortized.

9. Goodwill

Changes in the carrying amount of goodwill are as follows:

	2010	**2009**
	(in millions)	
Balance at January 1,	**$-**	$2,294
Goodwill impairment related to our Insurance Services business	**-**	(260)
Goodwill impairment related to our Card and Retail Services business	**-**	(393)
Balance at March 31,	$-(1)	$1,641

(1) At March 31, 2010 and 2009, accumulated impairment losses on goodwill totaled $6.3 billion and $4.6 billion, respectively.

As a result of the continuing deterioration of economic conditions throughout 2008 and into 2009 as well as the adverse impact to our Insurance Services business which resulted from the closure of all of our Consumer Lending branches, we wrote off all of our remaining goodwill balance during 2009, of which $653 million was written off during the first quarter of 2009. See Note 14, "Goodwill," in our 2009 Form 10-K for additional information.

10. Derivative Financial Instruments

Our business activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Accordingly, we have comprehensive risk management policies to address potential financial risks, which include credit risk, liquidity risk, market risk, and operational risks. Our risk management policy is designed to identify and analyze these risks, to set appropriate limits and controls, and to monitor the risks and limits continually by means of reliable and up-to-date administrative and information systems. Our risk management policies are primarily carried out in accordance with practice and limits set by the HSBC Group Management Board. The HSBC Finance Corporation Asset Liability Committee ("ALCO") meets regularly to review risks and approve appropriate risk management strategies within the limits established by the HSBC Group Management Board. Additionally, our Audit Committee receives regular reports on our liquidity positions in relation to the established limits. In accordance with the policies and strategies established by ALCO, in the normal course of business, we enter into various transactions involving derivative financial instruments. These derivative financial instruments primarily are used to manage our market risk.

Objectives for Holding Derivative Financial Instruments
Market risk (which includes interest rate and foreign currency exchange risks) is the possibility that a change in interest rates or foreign exchange rates will cause a financial instrument to decrease in value or

become more costly to settle. Historically, customer demand for our loan products shifted between fixed rate and floating rate products, based on market conditions and preferences. These shifts in loan products resulted in different funding strategies and produced different interest rate risk exposures. Additionally, the mix of receivables on our balance sheet and the corresponding market risk is changing as we manage the liquidation of several of our receivable portfolios. We maintain an overall risk management strategy that utlizes interest rate and currency derivative financial instruments to mitigate our exposure to fluctuations caused by changes in interest rates and currency exchange rates related to our debt liabilities. We manage our exposure to interest rate risk primarily through the use of interest rate swaps. We manage our exposure to foreign currency exchange risk primarily through the use of cross currency interest rate swaps. We do not use leveraged derivative financial instruments.

Interest rate swaps are contractual agreements between two counterparties for the exchange of periodic interest payments generally based on a notional principal amount and agreed-upon fixed or floating rates. The majority of our interest rate swaps are used to manage our exposure to changes in interest rates by converting floating rate debt to fixed rate or by converting fixed rate debt to floating rate. We have also entered into currency swaps to convert both principal and interest payments on debt issued from one currency to the appropriate functional currency.

We do not manage credit risk or the changes in fair value due to the changes in credit risk by entering into derivative financial instruments such as credit derivatives or credit default swaps.

Control Over Valuation Process and Procedures

A control framework has been established which is designed to ensure that fair values are either determined or validated by a function independent of the risk-taker. To that end, the ultimate responsibility for the determination of fair values rests with the HSBC Finance Valuation Committee. The HSBC Finance Valuation Committee establishes policies and procedures to ensure appropriate valuations. Fair values for derivatives are determined by management using valuation techniques, valuation models and inputs that are developed, reviewed, validated and approved by the Quantitative Risk and Valuation Group of an affiliate, HSBC Bank USA. These valuation models utilize discounted cash flows or an option pricing model adjusted for counterparty credit risk and market liquidity. The models used apply appropriate control processes and procedures to ensure that the derived inputs are used to value only those instruments that share similar risk to the relevant benchmark indexes and therefore demonstrate a similar response to market factors. In addition, a validation process is followed which includes participation in peer group consensus pricing surveys, to ensure that valuation inputs incorporate market participants' risk expectations and risk premium.

Credit Risk

By utilizing derivative financial instruments, we are exposed to counterparty credit risk. Counterparty credit risk is our primary exposure on our interest rate swap portfolio. Counterparty credit risk is the risk that the counterparty to a transaction fails to perform according to the terms of the contract. We manage the counterparty credit (or repayment) risk in derivative instruments through established credit approvals, risk control limits, collateral, and ongoing monitoring procedures. We utilize an affiliate, HSBC Bank USA, as the primary provider of domestic derivative products. We have never suffered a loss due to counterparty failure.

At March 31, 2010 and December 31, 2009, substantially all of our existing derivative contracts are with HSBC subsidiaries, making them our primary counterparty in derivative transactions. Most swap agreements require that payments be made to, or received from, the counterparty when the fair value of the agreement reaches a certain level. Generally, third-party swap counterparties provide collateral in the form of cash which is recorded in our balance sheet as derivative financial assets or derivative related liabilities. At March 31, 2010 and December 31, 2009, we provided third party swap counterparties with $37 million and $46 million of collateral, respectively. When the fair value of our agreements with affiliate counterparties requires the posting of collateral, it is provided in either the form of cash and recorded on the balance sheet, consistent with third party arrangements, or in the form of securities which are not recorded on our balance sheet. At March 31, 2010 and December 31, 2009, the fair value of our agreements with affiliate counterparties required the affiliate to provide collateral of $2.5 billion and $3.4 billion, respectively, all of which was provided in cash. These amounts are offset against the fair value amount recognized for derivative instruments that have been offset under the same master netting arrangement and recorded in our balance sheet as a component of derivative financial asset or derivative related liabilities. At March 31, 2010, we had derivative contracts with a notional value of $57.6 billion, including $56.6 billion outstanding with HSBC Bank USA. At December 31, 2009, we had derivative contracts with a notional value of approximately $59.7 billion, including $58.6 billion outstanding with HSBC Bank USA. Derivative financial instruments are generally expressed in terms of notional principal or contract amounts which are much larger than the amounts potentially at risk for nonpayment by counterparties.

To manage our exposure to changes in interest rates, we enter into interest rate swap agreements and currency swaps which have been designated as fair value or cash flow hedges under derivative accounting principles. We currently utilize the long-haul method to assess effectiveness of all derivatives designated as hedges. In the tables that follow below, the fair value disclosed does not include swap collateral that we either receive or deposit with our interest rate swap counterparties. Such swap collateral is recorded on our balance sheet at an amount which approximates fair value and is netted on the balance sheet with the fair value amount recognized for derivative instruments.

Fair Value Hedges

Fair value hedges include interest rate swaps to convert our fixed rate debt to variable rate debt and currency swaps to convert debt issued from one currency into U.S. dollar variable debt. All of our fair value hedges are associated with debt. We recorded fair value adjustments for fair value hedges which increased the carrying value of our debt by $96 million and $85 million at March 31, 2010 and December 31, 2009, respectively. The following table provides information related to the location of derivative fair values in the consolidated balance sheet for our fair value hedges.

	Asset Derivatives			Liability Derivatives		
	Balance Sheet Location	Fair Value as of March 31, 2010	Fair Value as of December 31, 2009	Balance Sheet Location	Fair Value as of March 31, 2010	Fair Value as of December 31, 2009
		(in millions)			(in millions)	
Interest rate swaps	Derivative financial assets	**$-**	$-	Derivative related liabilities	**$38**	$39
Currency swaps	Derivative financial assets	**238**	312	Derivative related liabilities	**-**	-
Total fair value hedges		**$238**	$312		**$38**	$39

The following table presents fair value hedging information, including the gain (loss) recorded on the derivative and where that gain (loss) is recorded in the consolidated statement of income (loss) as well as the offsetting gain (loss) on the hedged item that is recognized in current earnings, the net of which represents hedge ineffectiveness.

	Hedged Item	Location of Gain (Loss) Recognized in Income on Derivative	Location of Gain (Loss) Recognized in Income on Hedged Item	Amount of Gain (Loss) Recognized in Income On the Derivative Three Months Ended March 31, 2010	2009	Amount of Gain (Loss) Recognized in Income On the Hedged Items 2010	2009
				(in millions)			
Interest rate swaps	Fixed rate borrowings	Derivative related income	Derivative related income	$2	$(6)	$5	$11
Currency swaps	Fixed rate borrowings	Derivative related income	Derivative related income	11	42	(10)	(33)
Total				$13	$36	$(18)	$(22)

Cash Flow Hedges
Cash flow hedges include interest rate swaps to convert our variable rate debt to fixed rate debt and currency swaps to convert debt issued from one currency into pay fixed debt of the appropriate functional currency. Gains and (losses) on unexpired derivative instruments designated as cash flow hedges are reported in accumulated other comprehensive income (loss) net of tax and totaled a loss of $514 million and $490 million at March 31, 2010 and December 31, 2009, respectively. We expect $446 million ($288 million after tax) of currently unrealized net losses will be reclassified to earnings within one year; however, these reclassed unrealized losses will be offset by decreased interest expense associated with the variable cash flows of the hedged items and will result in no significant net economic impact to our earnings. The following table provides information related to the location of derivative fair values in the consolidated balance sheet for our cash flow hedges.

	Asset Derivatives Fair Value as of Balance Sheet Location	March 31, 2010	December 31, 2009	Liability Derivatives Fair Value as of Balance Sheet Location	March 31, 2010	December 31, 2009
		(in millions)			(in millions)	
Interest rate swaps	Derivative financial assets	$(388)	$(358)	Derivative related liabilities	$-	$-
Currency swaps	Derivative financial assets	755	1,362	Derivative related liabilities	-	-
Total cash flow hedges		$367	$1,004		$-	$-

The following table provides the gain or loss recorded on our cash flow hedging relationships.

Three Months Ended March 31,	Gain (Loss) Recognized in OCI on Derivative (Effective Portion) 2010	2009	Location of Gain (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Gain (Loss) Reclassed from Accumulated OCI into Income (Effective Portion) 2010	2009	Location of Gain (Loss) Recognized in Income on the Derivative (Ineffective Portion)	Gain (Loss) Recognized in Income on Derivative (Ineffective Portion) 2010	2009
				(in millions)				
Interest rate swaps	**$(28)**	$138	Interest expense	**$(19)**	$(3)	Derivative related income	**$-**	$1
Interest rate swaps	**-**	-	Gain on bulk receivable sale to HSBC affiliates	**-**	(80)		**-**	-
Currency swaps	(7)	181	Interest expense	(9)	(19)	Derivative related income	**3**	38
Total	$(35)	$319		$(28)	$(102)		**$3**	$39

Non-Qualifying Hedging Activities
We may enter into interest rate and currency swaps which are not designated as hedges under derivative accounting principles. These financial instruments are economic hedges but do not qualify for hedge accounting and are primarily used to minimize our exposure to changes in interest rates and currency exchange rates. The following table provides information related to the location and derivative fair values in the consolidated balance sheet for our non-qualifying hedges:

	Asset Derivatives Balance Sheet Location	Fair Value as of March 31, 2010	Fair Value as of December 31, 2009	Liability Derivatives Balance Sheet Location	Fair Value as of March 31, 2010	Fair Value as of December 31, 2009
		(in millions)			(in millions)	
Interest rate contracts	Derivative financial assets	**$150**	$88	Derivative related liabilities	**$18**	$12
Currency contracts	Derivative financial assets	**36**	76	Derivative related liabilities	**2**	9

Total non-qualifying hedges **$186** $167 $21

The following table provides detail of the gain or loss recorded on our non-qualifying hedges:

	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain(Loss) Recognized in Income On Derivative Three Months Ended March 31, 2010	2009
		(in millions)	
Interest rate contracts	Derivative related income	**$(102)**	$(16)
Currency contracts	Derivative related income	**-**	(1)
Total		**$(102)**	$(17)

In addition to the non-qualifying hedges described above, we have elected the fair value option for certain issuances of our fixed rate debt and have entered into interest rate and currency swaps related to debt carried at fair value. The interest rate and currency swaps associated with this debt are considered economic hedges and realized gains and losses are reported as "Gain on debt designated at fair value and related derivatives" within other revenues. The derivatives related to fair value option debt are included in the tables below. See Note 11, "Fair Value Option," for further discussion.

	Asset Derivatives Fair Value as of March 31, 2010	Balance Sheet Location	December 31, 2009	Liability Derivatives Fair Value as of March 31, 2010	Balance Sheet Location	December 31, 2009
	(in millions)			(in millions)		
Interest rate swaps	**$1,085**	Derivative financial assets	$1,034	**$-**	Derivative related liabilities	$-
Currency swaps	**574**	Derivative financial assets	752	**-**	Derivative related liabilities	-
Total non-qualifying hedges	**$1,659**		$1,786	**$-**		$-

The following table provides the gain or loss recorded on the derivatives related to fair value option debt, primarily due to changes in interest rates:

Location

	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income On Derivative Three Months Ended March 31, 2010	2009
		(in millions)	
Interest rate swaps	Gain on debt designated at fair value and related derivatives	**$233**	$(14)
Currency swaps	Gain on debt designated at fair value and related derivatives	**78**	154
Total		**$311**	$140

Notional Value of Derivative Contracts

The following table summarizes the notional values of derivative contracts:

	March 31, 2010	December 31, 2009
	(in millions)	
Derivatives designated as hedging instruments:		
Interest rate swaps	**$9,670**	$11,585
Currency swaps	**14,520**	15,373
	24,190	26,958
Non-qualifying economic hedges:		
Derivatives not designated as hedging instruments:		
Interest rate:		
Swaps	**8,057**	7,081
Purchased caps	**544**	682
Foreign exchange:		
Swaps	**1,291**	1,291
Forwards	**190**	349
	10,082	9,403
Derivatives associated with debt carried at fair value:		
Interest rate swaps	**19,169**	19,169
Currency swaps	**4,122**	4,122
	23,291	23,291
Total	**$57,563**	$59,652

11. Fair Value Option

Long-term debt at March 31, 2010 of $66.5 billion includes $26.7 billion of fixed rate debt carried at fair value. At March 31, 2010, we did not elect FVO for $17.7 billion of fixed rate long-term debt currently carried on our balance sheet. Fixed rate debt accounted for under FVO at March 31, 2010 had an aggregate unpaid principal balance of $25.7 billion which includes a foreign currency translation adjustment relating to our foreign denominated FVO debt which increased the debt balance by $261 million. Long-term debt at December 31, 2009 includes $26.7 billion of fixed rate debt accounted for under FVO. At December 31, 2009, we did not elect FVO for $19.0 billion of fixed rate long-term debt currently carried on our balance sheet. Fixed rate debt accounted for under FVO at December 31, 2009 had an aggregate unpaid principal balance of $25.9 billion which includes a foreign currency translation adjustment relating to our foreign denominated FVO debt which increased the debt balance by $488 million.

We determine the fair value of the fixed rate debt accounted for under FVO through the use of a third party pricing service. Such fair value represents the full market price (credit and interest rate impact) based on observable market data for the same or similar debt instruments. See Note 17, "Fair Value Measurements," for a description of the methods and significant assumptions used to estimate the fair value of our fixed rate debt accounted for under FVO.

The components of "Gain on debt designated at fair value and related derivatives" are as follows:

	Three Months Ended March 31, 2010	2009
	(in millions)	
Mark-to-market on debt designated at fair value(1):		
Interest rate component	**$(143)**	$181
Credit risk component	(35)	3,791
Total mark-to-market on debt designated at fair value	**(178)**	3,972
Mark-to-market on the related derivatives(1)	**100**	20
Net realized gains on the related derivatives	**211**	120
Gain on debt designated at fair value and related derivatives	**$133**	$4,112

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(1) Mark-to-market on debt designated at fair value and related derivatives excludes market value changes due to fluctuations in foreign currency exchange rates. Foreign currency translation gains (losses) recorded in derivative related income associated with debt designated at fair value was a gain of $227 million and $196 million for the three months ended March 31, 2010 and 2009, respectively. Offsetting gains (losses) recorded in derivative related income associated with the related derivatives was a loss of $227 million and $196 million for the three months ended March 31, 2010 and 2009, respectively.

The movement in the fair value reflected in gain on debt designated at fair value and related derivatives includes the effect of credit spread changes and interest rate changes, including any ineffectiveness in the relationship between the related swaps and our debt and any realized gains or losses on those swaps. With respect to the credit component, as credit spreads widen accounting gains are booked and the reverse is true if credit spreads narrow. Differences arise between the movement in the fair value of our debt and the fair value of the related swap due to the different credit characteristics and differences in the calculation of fair value for debt and derivatives. The size and direction of the accounting consequences of such changes can be volatile from period to period but do not alter the cash flows intended as part of the documented interest rate management strategy. On a cumulative basis, we have recorded fair value option adjustments which increased the value of our debt by $1,020 million and $842 million at March 31, 2010 and December 31, 2009, respectively.

The change in the fair value of the debt and the change in value of the related derivatives reflect the following:

- Interest rate curve -
A decrease in long term U.S. interest rates during the first quarter of 2010 resulted in a loss in the interest rate component on the mark-to-market of the debt and gain on the mark-to-market of the related derivative. In the first quarter of 2009, changes in the debt interest rate component and the derivative market value reflect a steepening in the U.S. LIBOR curve. During this period, interest rates for instruments with terms of three years or less decreased while interest rates for instruments with terms of greater than three years increased. Changes in the value of the interest rate component of the debt as compared to the related derivative are also affected by differences in cash flows and valuation methodologies for the debt and the derivatives. Cash flows on debt are discounted using a single discount rate from the bond yield curve for each bond's applicable maturity while derivative cash flows are discounted using rates at multiple points along the U.S. LIBOR yield curve. The impacts of these differences vary as short-term and long-term interest rates shift and time passes. Furthermore, certain derivatives have been called by the counterparty resulting in certain FVO debt having no related derivatives. As a result, approximately 7 percent of our FVO debt does not have a corresponding derivative at March 31, 2010. Income from net realized gains increased due to reduced short term U.S. interest rates.

- Credit -
Our secondary market credit spreads tightened during the first quarter of 2010 due to continued increases in market confidence and improvements in marketplace liquidity. During the first quarter of 2009, our credit spreads widened dramatically subsequent to the announcement of the discontinuation of all new customer account originations in our Consumer Lending business and closure of the Consumer Lending branch offices as well as the credit rating downgrades in early March 2009. In the first quarter of 2009, credit spreads also widened as new issue and secondary bond market credit spreads widened due to a general lack of liquidity in the secondary bond market during the prior year period.

Net income volatility, whether based on changes in the interest rate or credit risk components of the mark-to-market on debt designated at fair value and the related derivatives, impacts the comparability of our reported results between periods. Accordingly, gain on debt designated at fair value and related derivatives for the three months ended March 31, 2010 should not be considered indicative of the results for any future periods.

12. Income Taxes

Effective tax rates are analyzed as follows.

Three Months Ended March 31,	**2010**		**2009**	
	(dollars are in millions)			
Tax expense (benefit) at the U.S. Federal statutory income tax rate	**$(326)**	**(35.0)%**	$604	35.0%
Increase (decrease) in rate resulting from:				
Non-deductible goodwill	**-**	**-**	224	13.0
Bulk sale of receivable portfolios to an HSBC affiliate	**-**	**-**	(47)	(2.7)
State and local taxes, net of Federal benefit	**(4)**	**(.4)**	30	1.7
State rate change effect on net deferred taxes	**-**	**-**	32	1.9
Other	**-**	**-**	12	.6
Total income tax expense (benefit)	$(330	(35.4	$855	49.5

))% %

The effective tax rate for the three months ended March 31, 2010 was impacted by state and local taxes. The effective tax rate for the three months ended March 31, 2009 was significantly impacted by the non-tax deductible impairment of goodwill related to the Card and Retail Services and Insurance Services businesses. The effective tax rate for the three months ended March 31, 2009 was also impacted by a change in estimate in the state tax rate for jurisdictions where we file combined unitary state tax returns with other HSBC affiliates.

HSBC North America Consolidated Income Taxes
We are included in HSBC North America's consolidated Federal income tax return and in various combined state income tax returns. As such, we have entered into a tax allocation agreement with HSBC North America and its subsidiary entities ("the HNAH Group") included in the consolidated returns which govern the current amount of taxes to be paid or received by the various entities included in the consolidated return filings. As a result, we have looked at the HNAH Group's consolidated deferred tax assets and various sources of taxable income, including the impact of HSBC and HNAH Group tax planning strategies, in reaching conclusions on recoverability of deferred tax assets. Where a valuation allowance is determined to be necessary at the HSBC North America consolidated level, such allowance is allocated to principal subsidiaries within the HNAH Group as described below in a manner that is systematic, rational and consistent with the broad principles of accounting for income taxes.

The HNAH Group evaluates deferred tax assets for recoverability using a consistent approach which considers the relative impact of negative and positive evidence, including historical financial performance, projections of future taxable income, future reversals of existing taxable temporary differences, tax planning strategies and any available carryback capacity.

In evaluating the need for a valuation allowance, the HNAH Group estimates future taxable income based on management approved business plans, future capital requirements and ongoing tax planning strategies, including capital support from HSBC necessary as part of such plans and strategies. The HNAH Group has continued to consider the impact of the economic environment on the North American businesses and the expected growth of the deferred tax assets. This evaluation process involves significant management judgment about assumptions that are subject to change from period to period.

In conjunction with the HNAH Group deferred tax evaluation process, based on our forecasts of future taxable income, which include assumptions about the depth and severity of home price depreciation and the U.S. economic downturn, including unemployment levels and their related impact on credit losses, we currently anticipate that our results of future operations will generate sufficient taxable income to allow us to realize our deferred tax assets. However, since the recent market conditions have created significant downward pressure and volatility on our near-term pre-tax book income, our analysis of the realizability of the deferred tax assets significantly discounts any future taxable income expected from continuing operations and relies to a greater extent on continued capital support from our parent, HSBC, including tax planning strategies implemented in relation to such support. HSBC has indicated they remain fully committed and have the capacity and willingness to provide capital as needed to run operations, maintain sufficient regulatory capital, and fund certain tax planning strategies.

Only those tax planning strategies that are both prudent and feasible, and which management has the ability and intent to implement, are incorporated into our analysis and assessment. The primary and most significant strategy is HSBC's commitment to reinvest excess HNAH Group capital to reduce debt funding or otherwise invest in assets to ensure that it is more likely than not that the deferred tax assets will be utilized.

Currently, it has been determined that the HNAH Group's primary tax planning strategy, in combination with other tax planning strategies, provides support for the realization of the net deferred tax assets recorded for the HNAH Group. Such determination is based on HSBC's business forecasts and assessment as to the most efficient and effective deployment of HSBC capital, most importantly including the length of time such capital will need to be maintained in the U.S. for purposes of the tax planning strategy.

Notwithstanding the above, the HNAH Group has valuation allowances against certain specific tax attributes such as foreign tax credits, certain state related deferred tax assets and certain tax loss carryforwards for which the aforementioned tax planning strategies do not provide appropriate support.

HNAH Group valuation allowances are allocated to the principal subsidiaries, including us. The methodology allocates the valuation allowance to the principal subsidiaries based primarily on the entity's relative contribution to the growth of the HSBC North America consolidated deferred tax asset against which the valuation allowance is being recorded.

If future results differ from the HNAH Group's current forecasts or the primary tax planning strategy were to change, a valuation allowance against the remaining net deferred tax assets may need to be established which could have a material adverse effect on our results of operations, financial condition and capital position. The HNAH Group will continue to update its assumptions and forecasts of future taxable income, including relevant tax planning strategies, and assess the need for such incremental valuation allowances.

Absent the capital support from HSBC and implementation of the related tax planning strategies, the HNAH Group, including us, would be required to record a valuation allowance against the remaining deferred tax assets.

HSBC Finance Corporation Income Taxes

We recognize deferred tax assets and liabilities for the future tax consequences related to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and for tax credits and net operating and other losses. Our net deferred tax assets, including deferred tax liabilities and valuation allowances, totaled $2.8 billion and $3.0 billion as of March 31, 2010 and December 31, 2009, respectively.

We are currently under audit by the Internal Revenue Service as well as various state and local tax jurisdictions. Although one or more of these audits may be concluded within the next 12 months, it is not possible to reasonably estimate the impact of the results from these audits on our uncertain tax positions at this time.

13. Pension and Other Postretirement Benefits

The components of pension expense for the defined benefit pension plan reflected in our consolidated statement of income (loss) are shown in the table below and reflect the portion of the pension expense of the combined HSBC North America Pension Plan (either the HSBC North America Pension Plan" or the "Plan") which has been allocated to HSBC Finance Corporation:

Three Months Ended March 31,	**2010**	**2009**
		(in millions)
Service cost - benefits earned during the period	**$6**	$9
Interest cost on projected benefit obligation	**15**	17
Expected return on assets	**(14)**	(12)
Recognized losses	**9**	9

Amortization of prior service cost	(1)	-
Pension expense	**$15**	$23

Pension expense decreased during the first quarter of 2010 due to lower service and interest costs as a result of reduced headcount from our previously discussed strategic decisions. Also contributing to lower pension expense was the realization of higher returns on plan assets solely due to higher asset levels.

During the first quarter of 2010, we announced that the Board of Directors of HSBC North America had approved a plan to cease all future benefit accruals for legacy participants under the final average pay formula components of the HSBC North America Pension Plan (the "Plan") effective January 1, 2011. Future accruals to legacy participants under the Plan will thereafter be provided under the cash balance based formula which is now used to calculate benefits for employees hired after December 31, 1996. Furthermore, all future benefit accruals under the Supplemental Retirement Income Plan will also cease effective January 1, 2011.

The aforementioned changes to the Plan have been accounted for as a negative plan amendment and, therefore, the reduction in our share of HSBC North America's projected benefit obligation as a result of this decision will be amortized to net periodic pension cost over future service periods of the affected employees. The changes to the Supplemental Retirement Income Plan have been accounted for as a plan curtailment, which resulted in no significant immediate recognition of income or expense.

Components of the net periodic benefit cost for our post-retirement medical plan benefits other than pensions are as follows:

Three Months Ended March 31,	**2010**	**2009**
		(in millions)
Service cost - benefits earned during the period	**$1**	$1
Interest cost	**2**	3
Gain on curtailment	**-**	(16)
Recognized gains	**-**	(1)
Net periodic post-retirement benefit cost (income)	**$3**	$(13)

During the three months ended March 31, 2009, we recorded a curtailment gain of $16 million as a result of the decision in late February 2009 to discontinue new customer account originations for all products by our Consumer Lending business and close all branch offices.

14. Related Party Transactions

In the normal course of business, we conduct transactions with HSBC and its subsidiaries. These transactions occur at prevailing market rates and terms and include funding arrangements, derivative execution, purchases and sales of receivables, servicing arrangements, information technology and some centralized support services, item and statement processing services, banking and other miscellaneous services. The following tables present related party balances and the income and (expense) generated by related party transactions:

	March 31, 2010	**December 31, 2009**

		(in millions)
Assets and (Liabilities):		
Cash	**$176**	$295
Securities purchased under agreements to resell	**3,485**	1,550
Derivative related assets (liability), net	**(33)**	(56)
Other assets	**136**	123
Due to affiliates	**(9,023)**	(9,043)
Other liabilities	**(56)**	(194)

Three Months Ended March 31,	**2010**	**2009**
	(in millions)	
Income/(Expense):		
Interest expense paid to HSBC affiliates(1)	**$(220)**	$(297)
Interest income from HSBC affiliates	**1**	3
Net gain on bulk sale of receivables to HSBC Bank USA	**-**	57
HSBC affiliate income:		
Gain on receivable sales to HSBC affiliates:		
Daily sales of private label receivable originations	**38**	17
Daily sales of credit card receivables	**78**	109
Sales of real estate secured receivables	**-**	2
Total gain on receivable sales to HSBC affiliates	**116**	128
Servicing and other fees from HSBC affiliates:		
HSBC Bank USA:		
Real estate secured servicing and related fees	**3**	1
Private label and card receivable servicing and related fees	**153**	167
Auto finance receivable servicing and related fees	**9**	14
Taxpayer financial services loan servicing and other fees	**56**	-
Other servicing, processing, origination and support revenues from HSBC Bank USA and other HSBC affiliates	**3**	9
HSBC Technology and Services (USA) Inc. ("HTSU") servicing fees and rental revenue	**14**	13
Total servicing and other fees from HSBC affiliates	**238**	204
Taxpayer financial services loan origination and other fees	**(4)**	(10)
Support services from HSBC affiliates:		
HTSU	**(257)**	(216)
HSBC Global Resourcing (UK) Ltd.	**(34)**	(44)
Other HSBC affiliates	(7)	(8)
Total support services from HSBC affiliates	(298)	(268)
Stock based compensation expense with HSBC	**(4)**	(15)
Insurance commission paid to HSBC Bank Canada	**(5)**	(5)

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(1) Includes interest expense paid to HSBC affiliates for debt held by HSBC affiliates as well as net interest paid to or received from HSBC affiliates on risk management positions related to non-affiliated debt.

Transactions with HSBC Bank USA:

• In January 2009, we sold our GM and UP Portfolios to HSBC Bank USA with an outstanding principal balance of $12.4 billion at the time of sale and recorded a gain on the bulk sale of these receivables of

$130 million. This gain was partially offset by a loss of $80 million recorded on the termination of cash flow hedges associated with the $6.1 billion of indebtedness transferred to HSBC Bank USA as part of these transactions. We retained the customer account relationships and by agreement sell on a daily basis all new credit card receivable originations for the GM and UP Portfolios to HSBC Bank USA. We continue to service the GM and UP receivables for HSBC Bank USA for a fee. Information regarding these receivables is summarized in the table below.

- In January 2009, we also sold certain auto finance receivables with an outstanding principal balance of $3.0 billion at the time of sale to HSBC Bank USA and recorded a gain on the bulk sale of these receivables of $7 million. In March 2010, we repurchased $379 million of these auto finance receivables from HSBC Bank USA and immediately sold them to SC USA. See Note 2, "Sale of Auto Finance Servicing Operations and Certain Auto Finance Receivables," for further discussion of the transaction with SC USA. Prior to the sale of our receivable servicing operations to SC USA in March 2010, we serviced these auto finance receivables for HSBC Bank USA for a fee. Information regarding these receivables is summarized in the table below.

- In July 2004 we purchased the account relationships associated with $970 million of credit card receivables from HSBC Bank USA and on a daily basis, we sell new receivable originations on these credit card accounts to HSBC Bank USA. We continue to service these loans for a fee. Information regarding these receivables is summarized in the table below.

- In December 2004, we sold to HSBC Bank USA our private label receivable portfolio (excluding retail sales contracts at our Consumer Lending business). We continue to service the sold private label and credit card receivables and receive servicing and related fee income from HSBC Bank USA. We retained the customer account relationships and by agreement sell on a daily basis all new private label receivable originations and new receivable originations on these credit card accounts to HSBC Bank USA. Information regarding these receivables is summarized in the table below.

- In 2003 and 2004, we sold approximately $3.7 billion of real estate secured receivables to HSBC Bank USA. We continue to service these receivables for a fee. Information regarding these receivables is summarized in the table below.

The following table summarizes the private label, credit card (including the GM and UP Portfolios), auto finance and real estate secured receivables we are servicing for HSBC Bank USA at March 31, 2010 and December 31, 2009 as well as the receivables sold on a daily basis during the three months ended March 31, 2010 and 2009:

	Private Label	Credit Cards: General Motors	Credit Cards: Union Privilege	Credit Cards: Other	Auto Finance	Real Estate Secured	Total
				(in billions)			
Receivables serviced for HSBC Bank USA:							
March 31, 2010	[illegible]	[illegible]	**$4.9**	**$1.9**	**$-**	**$1.7**	**$27.1**
December 31, 2009	[illegible]	[illegible]	5.3	2.1	2.1	1.8	32.3
Total of receivables sold on a daily basis to HSBC Bank USA during:							
Three months ended March 31, 2010	[illegible]	[illegible]	**$.7**	**$1.0**	**$-**	**$-**	**$7.8**
Three months ended March 31, 2009	[illegible]	[illegible]	.8	1.0	-	-	8.8

Fees received for servicing these loan portfolios totaled $164 million and $182 million during the three months ended March 31, 2010 and 2009, respectively.

• The GM and UP credit card receivables as well as the private label receivables are sold to HSBC Bank USA on a daily basis at a sales price for each type of portfolio determined using a fair value calculated semi-annually in April and October by an independent third party based on the projected future cash flows of the receivables. The projected future cash flows are developed using various assumptions reflecting the historical performance of the receivables and adjusted for key factors such as the anticipated economic and regulatory environment. The independent third party uses these projected future cash flows and a discount rate to determine a range of fair values. We use the mid-point of this range as the sales price.

• In the second quarter of 2008, our Consumer Lending business launched a new program with HSBC Bank USA to sell real estate secured receivables to the Federal Home Loan Mortgage Corporation ("Freddie Mac"). Our Consumer Lending business originated the loans in accordance with Freddie Mac's underwriting criteria. The loans were then sold to HSBC Bank USA, generally within 30 days. HSBC Bank USA repackaged the loans and sold them to Freddie Mac under their existing Freddie Mac program. During the three months ended March 31, 2009, we sold $51 million of real estate secured loans to HSBC Bank USA for a gain on sale of $2 million. This program was discontinued in late February 2009 as a result of our decision to discontinue new customer account originations in our Consumer Lending business.

• HSBC Bank USA services a portfolio of real estate secured receivables for us with an outstanding principal balance of $1.4 billion and $1.5 billion at March 31, 2010 and December 31, 2009, respectively. Fees paid relating to the servicing of this portfolio totaled less than $1 million during the three months ended March 31, 2010 and $2 million during the three months ended March 31, 2009 and are reported in Support services from HSBC affiliates. The decrease during the first quarter of 2010 reflects a renegotiation of servicing fees for this portfolio.

• In the third quarter of 2009, we sold $86 million of Low Income Housing Tax Credit Investment Funds to HSBC Bank USA for a loss on sale of $15 million (after-tax).

• Under multiple service level agreements, we also provide various services to HSBC Bank USA, including real estate and credit card servicing and processing activities, auto finance loan servicing and other operational and administrative support. Fees received for these services are reported as Servicing and other fees from HSBC affiliates.

• In the fourth quarter of 2009, an initiative was begun to streamline the servicing of real estate secured receivables across North America. As a result, certain functions that we had previously performed for our mortgage customers are now being performed by HSBC Bank USA for all North America mortgage customers, including our mortgage customers. Additionally, we are currently performing certain functions for all North America mortgage customers where these functions had been previously provided separately by each entity. During the three months ended March 31, 2010, we paid $2 million for services we received from HSBC Bank USA and received $1 million for services we had provided.

• HSBC Bank USA and HSBC Trust Company (Delaware) ("HTCD") are the originating lenders on our behalf for loans initiated by our Taxpayer Financial Services business for clients of a third party tax preparer. We historically purchased the loans originated by HSBC Bank USA and HTCD daily for a fee. During the first quarter of 2010, we began purchasing a smaller portion of these loans. The loans which we previously purchased are now held on HSBC Bank USA's balance sheet. In the event any of the loans which HSBC Bank USA continues to hold on its balance sheet reach a defined delinquency status, we purchase the delinquent loans at par value as we have assumed all credit risk associated with this program. We receive a fee from HSBC Bank USA for both servicing the loans and assuming the credit risk associated with these loans which totaled $56 million for the three months ended March 31 2010. In the table above, these fees are shown as taxpayer financial services loan servicing and other fees. For the loans which we continue to purchase from HTCD, we receive taxpayer financial services revenue and pay an origination fee to HTCD. Fees paid for originations totaled $4 million and $10 million during the three months ended March 31, 2010 and 2009, respectively, and are included as an offset to taxpayer financial services revenue. In the table above, these origination fees are shown as taxpayer financial services loan origination and other fees.

• We have extended revolving lines of credit to subsidiaries of HSBC Bank USA for an aggregate total of $1.0 billion. No balances were outstanding under any of these lines of credit at either March 31, 2010 or December 31, 2009.

• HSBC Bank USA extended a secured $1.5 billion uncommitted credit facility to certain of our subsidiaries in December 2008. This is a 364 day credit facility which was renewed in November 2009. There were no balances outstanding at March 31, 2010 or December 31, 2009.

• HSBC Bank USA extended a $1.0 billion committed unsecured credit facility to HSBC Bank Nevada ("HOBN"), a subsidiary of HSBC Finance Corporation, in December 2008. This 364 day credit facility was renewed in December 2009. There were no balances outstanding at March 31, 2010 or December 31, 2009.

Transactions with HSBC Holdings plc:

• At March 31, 2010 and December 31, 2009, a commercial paper back-stop credit facility of $2.5 billion from HSBC supported our domestic issuances of commercial paper. No balances were outstanding under this credit facility at March 31, 2010 or December 31, 2009. The annual commitment fee requirement to support availability of this line is included as a component of Interest expense - HSBC affiliates in the consolidated statement of income (loss).

• In late February 2009, we effectively converted $275 million of mandatorily redeemable preferred securities of the Household Capital Trust VIII which had been issued during 2003 to common stock by redeeming the junior subordinated notes underlying the preferred securities and then issuing common stock to HSBC Investments (North America) Inc. ("HINO"). Interest expense recorded on the underlying junior subordinated notes totaled $3 million during the three months ended March 31, 2009. This interest expense is included in Interest expense - HSBC affiliates in the consolidated statement of income (loss).

• Employees of HSBC Finance Corporation participate in one or more stock compensation plans sponsored by HSBC. These expenses are recorded in Salary and employee benefits and are reflected in the above table as Stock based compensation expense with HSBC.

Transactions with other HSBC affiliates:

• Technology and some centralized support services including human resources, corporate affairs, risk management and other shared services and beginning in January 2010, legal, compliance, tax and finance, in North America are centralized within HTSU. Technology related assets are generally purchased and owned by HTSU but may also be capitalized and recorded on our consolidated balance sheet. HTSU also provides certain item processing and statement processing activities which are included in Support services from HSBC affiliates. We also receive revenue from HTSU for rent on certain office space, which has been recorded as a component of servicing and other fees from HSBC affiliates. Rental revenue from HTSU was $12 million and $11 million during the three months ended March 31, 2010 and 2009, respectively.

• The notional value of derivative contracts outstanding with HSBC subsidiaries totaled $56.6 billion and $58.6 billion at March 31, 2010 and December 31, 2009, respectively. When the fair value of our agreements with affiliate counterparties requires the posting of collateral, it is provided in either the form of cash and recorded on the balance sheet or in the form of securities which are not recorded on our balance sheet. The fair value of our agreements with affiliate counterparties required the affiliate to provide collateral of $2.5 billion and $3.4 billion at March 31, 2010 and December 31, 2009, respectively, all of which was received in cash. These amounts are offset against the fair value amount recognized for derivative instruments that have been offset under the same master netting arrangement.

• Due to affiliates includes amounts owed to subsidiaries of HSBC as a result of direct debt issuances (other than preferred stock).

• In September 2008, we borrowed $1.0 billion from an existing uncommitted credit facility with HSBC Bank plc ("HBEU"). The borrowing was for 60 days and matured in November 2008. We renewed this borrowing for an additional 95 days. The borrowing matured in February 2009 and we chose not to renew it at that time. Interest expense on this borrowing totaled $5 million during the three months ended March 31, 2009.

• In October 2008, we borrowed $1.2 billion from an uncommitted money market facility with a subsidiary of HSBC Asia Pacific ("HBAP"). The borrowing was for six months, matured in April 2009 and we chose not to renew it at that time. Interest expense on this borrowing totaled $18 million during the three months ended March 31, 2009.

• We purchase securities from HSBC Securities (USA) Inc. ("HSI") under an agreement to resell. Interest income recognized on these securities totaled $1 million and $2 million during the three months ended March 31, 2010 and 2009, respectively, and is reflected as Interest income paid to HSBC affiliates in the table above.

• We use HSBC Global Resourcing (UK) Ltd., an HSBC affiliate located outside of the United States, to provide various support services to our operations including among other areas, customer service, systems, collection and accounting functions. The expenses related to these services of $34 million and $44 million during the three months ended March 31, 2010 and 2009, respectively, are included as a component of Support services from HSBC affiliates in the table above.

• Support services from HSBC affiliates also include banking services and other miscellaneous services provided by other subsidiaries of HSBC, including HSBC Bank USA.

• Employees of HSBC Finance Corporation participate in a defined benefit pension plan and other post-retirement benefit plans sponsored by HSBC North America. See Note 13, "Pension and Other Post-retirement Benefits," for additional information on this pension plan.

• Historically, we have utilized HSBC Markets (USA) Inc, ("HMUS") to lead manage the underwriting of term debt issuances. There were no fees paid to the affiliate for such services during 2010 or 2009. For debt not accounted for under the fair value option, these fees are amortized over the life of the related debt and included as a component of interest expense.

• We continue to guarantee the long-term and medium-term notes issued by our Canadian business prior to its sale to HSBC Bank Canada. During the three months ended March 31, 2010 and 2009, we recorded fees of $1 million for providing this guarantee. As of March 31, 2010, the outstanding balance of the guaranteed notes was $2.4 billion and the latest scheduled maturity of the notes is May 2012. The sale agreement with HSBC Bank Canada allows us to continue to distribute various insurance products through the branch network for a fee. Fees paid to HSBC Bank Canada for distributing insurance products through this network during the three months ended March 31, 2010 and 2009 were $5 million and are included in insurance Commission paid to HSBC Bank Canada in the table above.

15. Business Segments

We have two reportable segments: Card and Retail Services and Consumer. Our segments are managed separately and are characterized by different middle-market consumer lending products, origination processes, and locations. Our segment results are reported on a continuing operations basis. There have been no changes in our measurement of segment profit (loss) or the basis of segmentation as compared with the presentation in our 2009 Form 10-K.

Our Card and Retail Services segment comprises our core operations and includes our MasterCard, Visa, private label and other credit card operations. The Card and Retail Services segment offers these products throughout the United States primarily via strategic affinity and co-branding relationships, merchant relationships and direct mail. We also offer products and provide customer service through the Internet.

Our Consumer segment consists of our run-off Consumer Lending, Mortgage Services and Auto Finance businesses which are no longer considered central to our core operations. The Consumer segment provided real estate secured, auto finance and personal non-credit card loans. Loans were offered with both revolving and closed-end terms and with fixed or variable interest rates. Loans were originated through branch locations and direct mail. Products were also offered and customers serviced through the Internet. Prior to the first quarter of 2007, we acquired loans from correspondent lenders and prior to September 2007 we also originated loans through mortgage brokers. While these businesses are operating in run-off mode, they have not been reported as discontinued operations because we continue to generate cash flow from the ongoing collections of the receivables, including interest and fees.

The All Other caption includes our Insurance business which continues to be a core part of our operations as well as our Taxpayer Financial Services and Commercial businesses which are no longer considered central to our core operations. Each of these businesses falls below the quantitative threshold tests under segment reporting accounting principles for determining reportable segments. The "All Other" caption also includes our corporate and treasury activities, which includes the impact of FVO debt. Certain fair value adjustments related to purchase accounting resulting from our acquisition by HSBC and related amortization have been allocated to corporate, which is included in the "All Other" caption within our segment disclosure including goodwill arising from our acquisition by HSBC.

We report results to our parent, HSBC, in accordance with its reporting basis, IFRSs. Our segment results are presented on an IFRS Management Basis (a non-U.S. GAAP financial measure) as operating results are monitored and reviewed, trends are evaluated and decisions about allocating resources such as employees are made almost exclusively on an IFRS Management Basis. IFRS Management Basis results are IFRSs results which assume that the GM and UP credit card, auto finance, private label and real estate secured receivables transferred to HSBC Bank USA have not been sold and remain on our balance sheet and the revenues and expenses related to these receivables remain on our income statement. IFRS Management Basis also assumes that the purchase accounting fair value adjustments relating to our acquisition by HSBC have been "pushed down" to HSBC Finance Corporation. Operations are monitored and trends are evaluated on an IFRS Management Basis because the receivable sales to HSBC Bank USA were conducted primarily to fund prime customer loans more efficiently through bank deposits and such receivables continue to be managed and serviced by us without regard to ownership. However, we continue to monitor capital adequacy, establish dividend policy and report to regulatory agencies on a U.S. GAAP legal entity basis.

For segment reporting purposes, intersegment transactions have not been eliminated. We generally account for transactions between segments as if they were with third parties.

Reconciliation of our IFRS Management Basis segment results to the U.S. GAAP consolidated totals are as follows:

	Card and Retail Services	Consumer	All Other	Adjustments/ Reconciling Items	IFRS Management Basis Consolidated Totals	Management Basis Adjustments(3)	IFRS Adjustments(4)	IFRS Reclass-ifications(5)
					(in millions)			
Three months ended March 31, 2010								
Net interest income	**$1,279**	**$707**	**$285**	**$-**	**$2,271**	**$(741)**	**$(95)**	**$(231)**
Other operating income (Total other revenues)	**391**	(58)	(59)	(7)(1)	**267**	**95**	**46**	**303**
Total operating income (loss)	**1,670**	**649**	**226**	**(7)**	**2,538**	**(646)**	**(49)**	**72**
Loan impairment charges (Provision for credit losses)	**537**	**1,758**	(1)	**-**	**2,294**	(309)	(66)	**-**
	1,133	**(1,109)**	**227**	**(7)**	**244**	**(337)**	**17**	**72**
Operating expenses	**452**	**267**	**82**	(7)	**794**	(11)	**74**	**72**
Profit (loss) before tax	**$681**	$(1,376)	**$145**	**$-**	$(550)	$(326)	$(57)	**$-**
Intersegment revenues	**3**	**18**	**(14)**	**(7)(1)**	-	-	-	-
Balances at end of period:								
Customer loans (Receivables)	**34,987**	**73,143**	**1,745**	**-**	**109,875**	**(27,271)**	**(590)**	**(1,700)**
Assets	**33,519**	**71,558**	**15,002**	**-**	**120,079**	(26,483)	(3,384)	(136)
Three months ended March 31, 2009								

Total

Net interest income	$1,340	$1,035	$256	$-	$2,631	$(724)	$(84)	$(144)
Other operating income (Total other revenues)	660	(39)	4,030	(7)(1)	4,644	103	(85)	306
Total operating income (loss)	2,000	996	4,286	(7)	7,275	(621)	(169)	162
Loan impairment charges (Provision for credit losses)	1,511	2,435	-	-	3,946	(839)	(162)	-
	489	(1,439)	4,286	(7)	3,329	218	(7)	162
Operating expenses	488	557	1,677	(7)	2,715	3	(905)	162
Profit (loss) before tax	$1	$(1,996)	$2,609	$-	$614	$215	$898	$-
Intersegment revenues	2	34	(29)	(7)(1)	-	-	-	-
Balances at end of period:				-				
Customer loans (Receivables)	$42,867	$95,651	$1,076	$-	$139,594	$(33,686)	$(441)	$(2,409)
Assets	40,976	92,139	13,609	(3)(2)	146,721	(32,225)	(3,137)	(166)

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(1) Eliminates intersegment revenues.

(2) Eliminates investments in subsidiaries and intercompany borrowings.

(3) Management Basis Adjustments represent the GM and UP credit card Portfolios and the auto finance, private label and real estate secured receivables transferred to HSBC Bank USA.

(4) IFRS Adjustments consist of the accounting differences between U.S. GAAP and IFRSs which have been described more fully below.

(5) Represents differences in balance sheet and income statement presentation between IFRSs and U.S. GAAP.

Further discussion of the differences between IFRSs and U.S. GAAP are presented in Item 2, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Form 10-Q under the caption "Basis of Reporting." A summary of the significant differences between U.S. GAAP and IFRSs as they impact our results are presented below:

Net interest income

Effective interest rate
- The calculation of effective interest rates under IFRS 39, "Financial Instruments: Recognition and Measurement ("IAS 39"), requires an estimate of "all fees and points paid or recovered between parties to the contract" that are an integral part of the effective interest rate be included. U.S. GAAP generally prohibits recognition of interest income to the extent the net interest in the loan would increase to an amount greater than the amount at which the borrower could settle the obligation. Under U.S. GAAP, prepayment penalties are generally recognized as received. U.S. GAAP also includes interest income on loans held for resale which is included in other revenues for IFRSs.

Deferred loan origination costs and fees
- Loan origination cost deferrals under IFRSs are more stringent and result in lower costs being deferred than permitted under U.S. GAAP. In addition, all deferred loan origination fees, costs and loan premiums must be recognized based on the expected life of the receivables under IFRSs as part of the effective interest calculation while under U.S. GAAP they may be recognized on either a contractual or expected life basis.

Derivative interest expense
- Under IFRSs, net interest income includes the interest element for derivatives which correspond to debt designated at fair value. For U.S. GAAP, this is included in Gain (loss) on debt designated at fair value and related derivatives which is a component of other revenues. Additionally, under IFRSs, insurance investment income is included in net interest income instead of as a component of other revenues under U.S. GAAP.

Other operating income (Total other revenues)

Present value of long-term insurance contracts
- Under IFRSs, the present value of an in-force ("PVIF") long-term insurance contract is determined by discounting future cash flows expected to emerge from business currently in force using appropriate assumptions in assessing factors such as future mortality, lapse rates and levels of expenses, and a discount rate that reflects the risk premium attributable to the respective long-term insurance business. Movements in the PVIF of long-term insurance contracts are included in other operating income. Under U.S. GAAP, revenue is recognized over the life insurance policy term.

Policyholder benefits
- Other revenues under IFRSs includes policyholder benefits expense which is classified as other expense under U.S. GAAP.

Loans held for sale
- IFRSs requires loans designated as held for resale at the time of origination to be treated as trading assets and recorded at their fair market value. Under U.S. GAAP, loans designated as held for resale are reflected as loans and recorded at the lower of amortized cost or fair value. Under IFRSs, the income and expenses related to receivables held for sale are reported in other operating income. Under U.S. GAAP, the income and expenses related to receivables held for sale are reported similarly to loans held for investment.

For receivables transferred to held for sale subsequent to origination, IFRSs requires these receivables to be reported separately on the balance sheet but does not change the recognition and measurement criteria. Accordingly, for IFRSs purposes such loans continue to be accounted for in accordance with IAS 39 with any gain or loss recorded at the time of sale. U.S. GAAP requires loans that management intends to sell to be transferred to a held for sale category at the lower of cost or fair value. Under U.S. GAAP, the component of the lower of cost or fair value adjustment related to credit risk is recorded in the statement of loss as provision for credit losses while the component related to interest rates and liquidity factors is reported in the statement of loss in other revenues.

Certain receivables that were previously classified as held for sale under U.S. GAAP have now been transferred to held for investment as we now intend to hold for the foreseeable future. Under U.S. GAAP, these receivables were subject to lower of cost or fair value adjustments while held for sale and have been transferred to held for investment at their current carrying value. Under IFRSs, these receivables were always reported within loans and the measurement criteria did not change. As a result, loan impairment charges are now being recorded under IFRSs which were essentially included as a component of the lower of cost or fair value adjustments under U.S. GAAP.

Securities
- Under IFRSs, securities include HSBC shares held for stock plans at fair value. These shares are recorded at fair value through other comprehensive income and subsequently recognized in profit and loss as the shares vest. If it is determined these shares have become impaired, the fair value loss is recognized in profit and loss and any fair value loss recorded in other comprehensive income is reversed. There is no similar requirement under U.S. GAAP.

Other-than-temporary impairments
- Under U.S. GAAP we are allowed to evaluate perpetual preferred securities for potential other-than-temporary impairment similar to a debt security provided there has been no evidence of deterioration in the credit of the issuer and record the unrealized losses as a component of other comprehensive income. There are no similar provisions under IFRSs as all perpetual preferred securities are evaluated for other-than-temporary impairment as equity securities.

Under U.S. GAAP, the credit loss component of an other-than-temporary impairment of a debt security is recognized in earnings while the remaining portion of the impairment loss is recognized in other comprehensive income provided a company concludes it neither intends to sell the security nor concludes that it is more-likely-than-not that it will have to sell the security prior to recovery. Under IFRSs, there is no bifurcation of other-than-temporary impairment and the entire decline in value is recognized in earnings.

REO Expense
- Other revenues under IFRSs includes losses on sale and the lower of cost or fair value adjustments on REO properties which are classified as other expense under U.S. GAAP.

Loan impairment charges (Provision for credit losses)

IFRSs requires a discounted cash flow methodology for estimating impairment on pools of homogeneous customer loans which requires the incorporation of the time value of money relating to recovery estimates. Also under IFRSs, future recoveries on charged-off loans are accrued for on a discounted basis and a recovery asset is recorded. Subsequent recoveries are recorded to earnings under U.S. GAAP, but are adjusted against the recovery asset under IFRSs. Interest is recorded based on collectibility under IFRSs.

As discussed above, under U.S. GAAP the credit risk component of the lower of cost or fair value adjustment related to the transfer of receivables to held for sale is recorded in the statement of loss as provision for credit losses. There is no similar requirement under IFRSs.

Operating expenses

Goodwill impairments -
Goodwill impairment under IFRSs was higher than that under U.S. GAAP due to higher levels of goodwill established under IFRSs as well as differences in how impairment is measured as U.S. GAAP requires a two-step impairment test which requires the fair value of goodwill to be determined in the same manner as the amount of goodwill recognized in a business combination.

Policyholder benefits -
Operating expenses under IFRSs are lower as policyholder benefits expenses are reported as an offset to other revenues as discussed above.

Pension costs -
Net income under U.S. GAAP is lower than under IFRSs as a result of the amortization of the amount by which actuarial losses exceed gains beyond the 10 percent "corridor". Furthermore, in 2010 changes to future accruals for legacy participants under the HSBC North America Pension Plan were accounted for as a plan curtailment under IFRSs, which resulted in immediate income recognition. Under U.S. GAAP, these changes were considered to be a negative plan amendment which resulted in no immediate income recognition.

Assets

Customer loans (Receivables)
- On an IFRSs basis loans designated as held for sale at the time of origination and accrued interest are classified in other assets. However, the accounting requirements governing when receivables previously held for investment are transferred to a held for sale category are more stringent under IFRSs than under U.S. GAAP. Unearned insurance premiums are reported as a reduction to receivables on a U.S. GAAP basis but are reported as insurance reserves for IFRSs.

Other
- In addition to the differences discussed above, derivative financial assets are higher under IFRSs than under U.S. GAAP as U.S. GAAP permits the netting of certain items. No similar requirement exists under IFRSs.

16. Variable Interest Entities

On January 1, 2010, we adopted the new guidance which amends the accounting for the consolidation of variable interest entities. The new guidance changed the approach for determining the primary beneficiary of a VIE from a quantitative approach focusing on risk and reward to a qualitative approach focusing on the power to direct the activities of the VIE and the obligation to absorb losses and/or the right to receive benefits of the VIE. The adoption of the new guidance has not resulted in any changes to consolidated entities for us.

Variable Interest Entities
We consolidate VIEs in which we hold a controlling financial interest as evidenced by the power to direct the activities of a VIE that most significantly impact its economic performance and the obligation to absorb losses of, or the right to receive benefits from, the VIE that could be potentially significant to the VIE and therefore are deemed to be the primary beneficiary. We take into account all of our involvements in a VIE in identifying (explicit or implicit) variable interests that individually or in the aggregate could be significant

enough to warrant our designation as the primary beneficiary and hence require us to consolidate the VIE or otherwise require us to make appropriate disclosures. We consider our involvement to be significant where we, among other things, (i) provide liquidity facilities to support the VIE's debt issuances, (ii) enter into derivative contracts to absorb the risks and benefits from the VIE or from the assets held by the VIE, (iii) provide a financial guarantee that covers assets held or liabilities issued, (iv) design, organize and structure the transaction and (v) retain a financial or servicing interest in the VIE.

We are required to evaluate whether to consolidate a VIE when we first become involved and on an ongoing basis. In almost all cases, a qualitative analysis of our involvement in the entity provides sufficient evidence to determine whether we are the primary beneficiary. In rare cases, a more detailed analysis to quantify the extent of variability to be absorbed by each variable interest holder is required to determine the primary beneficiary.

Consolidated VIEs

In the ordinary course of business, we have organized special purpose entities ("SPEs") primarily to meet our own funding needs through collateralized funding transactions. We transfer certain receivables to these trusts which in turn issue debt instruments collateralized by the transferred receivables. The entities used in these transactions are VIEs and we are deemed to be their primary beneficiary because we hold beneficial interests that expose us to the majority of their expected losses. Accordingly, we consolidate these entities and report the debt securities issued by them as secured financings in long-term debt. This has not changed as a result of the new accounting guidance effective January 1, 2010. As a result, all receivables transferred in these secured financings have remained and continue to remain on our balance sheet and the debt securities issued by them have remained and continue to be included in long-term debt.

The following table summarizes the assets and liabilities of these consolidated secured financing VIEs as of March 31, 2010 and December 31, 2009:

	March 31, 2010		**December 31, 2009**	
	Consolidated Assets	**Consolidated Liabilities**	**Consolidated Assets**	**Consolidated Liabilities**
		(in millions)		
Real estate collateralized funding vehicles:				
Receivables, net	**$6,244**	**$-**	$6,404	$-
Available-for-sale investments	**10**	**-**	13	-
Long-term debt	**-**	**4,482**	-	4,678
Subtotal	**6,254**	**4,482**	6,417	4,678
Credit card collateralized funding vehicles:				
Receivables, net	**1,585**	**-**	1,821	-
Long-term debt	**-**	**-**	-	-
Subtotal	**1,585**	**-**	1,821	-
Auto finance collateralized funding vehicles:				
Receivables, net	**838**	**-**	1,145	-
Other assets	**117**	**-**	152	-
Long-term debt	**-**	**586**	-	778
Subtotal	**955**	**586**	1,297	778
Total	**$8,794**	**$5,068**	$9,535	$5,456

The assets of the consolidated VIEs serve as collateral for the obligations of the VIEs. The holders of the debt securities issued by these vehicles have no recourse to our general credit.

Unconsolidated VIEs
We are involved with VIEs related to low income housing partnerships, leveraged leases and investments in community partnerships that were not consolidated at March 31, 2010 or December 31, 2009 because we are not the primary beneficiary. At March 31, 2010, we have assets totaling $37 million on our consolidated balance sheet which represents our maximum exposure to loss for these VIEs.

Additionally, we are involved with other VIEs which currently provide funding to HSBC Bank USA through collateralized funding transactions. We have not consolidated these VIEs at March 31, 2010 or December 31, 2009 because we are not the primary beneficiary as our relationship with these VIEs is limited to servicing certain credit card and private label receivables of the related trusts.

17. Fair Value Measurements

Accounting principles related to fair value measurements provide a framework for measuring fair value and focuses on an exit price in the principal (or alternatively, the most advantageous) market accessible in an orderly transaction between willing market participants (the "Fair Value Framework"). The Fair Value Framework establishes a three-tiered fair value hierarchy with Level 1 representing quoted prices (unadjusted) in active markets for identical assets or liabilities. Fair values determined by Level 2 inputs are inputs that are observable for the identical asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are disorderly, and inputs other than quoted prices that are observable for the asset or liability, such as interest rates and yield curves that are observable at commonly quoted intervals. Level 3 inputs are unobservable inputs for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. Transfers between leveling categories are recognized at the end of each reporting period.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis
The following table presents information about our assets and liabilities measured at fair value on a recurring basis as of March 31, 2010 and December 31, 2009, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	Assets (Liabilities) Measured at Fair Value	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
			(in millions)	
March 31, 2010:				
Derivative financial assets(1):				
Interest rate swaps	**$1,292**	$-	**$1,292**	$-
Currency swaps	**1,793**	-	**1,793**	-
Derivative netting	(635)	-	(635)	-
Total derivative financial assets	**2,450**	-	**2,450**	-
Available-for-sale securities:				
U.S. Treasury	**426**	**426**	-	-
U.S. government sponsored enterprises	**137**	**21**	**116**	-

U.S. government agency issued or guaranteed	**18**	-	**18**	-
Obligations of U.S. states and political subdivisions	**31**	-	**31**	-
Asset-backed securities	**79**	-	**52**	**27**
U.S. corporate debt securities	**1,676**	-	**1,666**	**10**
Foreign debt securities:				
Government	**81**	**9**	**72**	-
Corporate	**279**	-	**279**	-
Equity securities	**12**	-	**12**	-
Money market funds	**425**	**425**	-	-
Accrued interest	**31**	**2**	**29**	-
Total available-for-sale securities	**3,195**	**883**	**2,275**	**37**
Total assets	**$5,645**	**$883**	**$4,725**	**$37**
Long-term debt carried at fair value	**$(26,690)**	$-	**$(26,690)**	**$-**
Derivative related liabilities(1):				
Interest rate swaps	**(494)**	-	**(494)**	-
Currency swaps	**(190)**	-	**(190)**	-
Foreign Exchange Forward	**(6)**	-	**(6)**	-
Derivative netting	**635**	-	**635**	-
Total derivative related liabilities	(55)	-	(55)	-
Total liabilities	$(26,745)	**$-**	$(26,745)	**$-**
December 31, 2009:				
Derivative financial assets(1)	$3,363	$-	$3,363	$-
Available-for-sale securities:				
U.S. Treasury	196	196	-	-
U.S. government sponsored enterprises	97	21	74	2
U.S. government agency issued or guaranteed	21	-	21	-
Obligations of U.S. states and political subdivisions	32	-	31	1
Asset-backed securities	83	-	57	26
U.S. corporate debt securities	1,724	-	1,704	20
Foreign debt securities	366	10	356	-
Equity securities	12	-	12	-
Money market funds	627	627	-	-
Accrued interest	29	1	28	-
Total available-for-sale securities	3,187	855	2,283	49
Total assets	$6,550	$855	$5,646	$49
Long-term debt carried at fair value	$(26,745)	$-	$(26,745)	$-
Derivative related liabilities	(59)	-	(59)	-
Total liabilities	$(26,804)	$-	$(26,804)	$-

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(1) The fair value disclosed does not include swap collateral which was a net liability of $2.4 billion and $3.4 billion at March 31, 2010 and December 31, 2009, respectively, and that we either received or deposited with our interest rate swap counterparties. Such swap collateral is recorded on our balance sheet at an amount which "approximates fair value" and is netted on the balance sheet with the fair value amount recognized for derivative instruments when certain conditions are met.

The following table provides additional detail regarding the rating of our U.S. corporate debt securities at March 31, 2010:

	Level 2	Level 3	Total
	(in millions)		
AAA to AA(1)	$383	$-	$383
A+ to A-(1)	1,153	3	1,156
BBB+ to Unrated(1)	130	7	137

(1) We obtain ratings on our U.S. corporate debt securities from both Moody's Investor Services and Standard and Poor's Corporation. In the event the ratings we obtain from these agencies differ, we utilize the lower of the two ratings.

Significant Transfers Into/Out of Level 1 and Level 2

There were no transfers between Level 1 (quoted unadjusted prices in active markets for identical assets or liabilities) and Level 2 (using inputs that are observable for the identical asset or liability, either directly or indirectly) during the three months ended March 31, 2010.

Information on Level 3 Assets and Liabilities

The table below reconciles the beginning and ending balances for assets recorded at fair value using significant unobservable inputs (Level 3) during the three months ended March 31, 2010 and 2009.

	Jan. 1, 2010	Total Gains and (Losses) Included in Income	Total Gains and (Losses) Included in Other Comp. Income	Purchases	Issuances	Settlement	Transfers Out of Level 2 and Into Level 3	Transfers Out of Level 3 and Into Level 2	Mar. 31 2010	Current Periods Unrealized Gains (Losses)
						(in millions)				
Assets:										
Securities available-for-sale:										
U.S. Government sponsored enterprises	$2	$-	$-	$-	$-	$-	$-	$(2)	$-	$-
Obligations of U.S. states and political subdivisions	1	-	-	-	-	(1)	-	-	-	-
Asset-backed securities	26	-	(1)	-	-	-	2	-	27	(10)
U.S. corporate debt securities	20	-	-	-	-	-	7	(17)	10	-
Total assets	$49	$-	$(1	$-	$-	$(1	$9	$(19	$37	$(10

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	Jan. 1, 2009	Total Gains and (Losses) Included in Income	Total Gains and (Losses) Included in Other Comp. Income	Purchases	Issuances	Settlement	Transfers Into Level 3	Transfers Out of Level 3	Mar. 31 2009	Current Periods Unrealized Gains (Losses)
						(in millions)				
Assets:										
Securities available-for-sale:										
U.S. Government sponsored enterprises	$-	$-	$-	$-	$-	$-	$2	$-	$2	$-
Asset-backed securities	38	-	(2)	-	-	-	12	(18)	30	(32)
U.S. corporate debt securities	84	-	-	4	-	-	16	(72)	32	(8)
Foreign debt securities	-	-	-	-	-	-	6	-	6	-
Equity Securities	$51	(8)	-	-	-	(1)	-	-	42	-
Accrued interest	2	-	-	-	-	-	-	(1)	1	-
Total assets	$175	$(8)	$(2)	$4	$-	$(1)	$36	$(91)	$113	$(40)

The amount of total gains or losses for the three months ended March 31, 2010 and 2009 included in income attributable to the change in unrealized losses relating to assets still held at March 31, 2010 and 2009 was $0 million and $(8) million, respectively.

Assets and Liabilities Recorded at Fair Value on a Non-recurring Basis

The following table presents information about our assets and liabilities measured at fair value on a non-recurring basis as of March 31, 2010 and March 31, 2009, and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair value.

	Non-Recurring Fair Value Measurements as of March 31, 2010				Total Gains (Losses) For the Three Months Ended March 31, 2010
	Level 1	Level 2	Level 3	Total	
			(in millions)		
Real estate secured receivables held for sale at fair value	$-	$-	$3	$3	$-
Real estate owned(1)	$-	$780	$-	$780	$(39

Repossessed vehicles(1)	$-	$20	$-	$20	$-(2)

	Non-Recurring Fair Value Measurements as of March 31, 2009				Total Gains (Losses) For the Three Months Ended March 31, 2009
	Level 1	Level 2	Level 3	Total	
	(in millions)				
Real estate secured	$-	$-	$41	$41	$(2)
Credit cards	-	-	1,360	1,360	(167)
Total receivables held for sale at fair value(3)	$-	$-	$1,401	$1,401	$(169)
Goodwill(4)	$-	$-	$1,641	$1,641	$(653)
Intangible assets(4)	$-	$-	$20	$20	$(14)
Real estate owned(1)	$-	$888	$-	$888	$(97)
Repossessed vehicles(1)	$-	$47	$-	$47	$-(2)

(1) Real estate owned and repossessed vehicles are required to be reported on the balance sheet net of transaction costs. The real estate owned and repossessed vehicle amounts in the table above reflect the fair value of the underlying asset unadjusted for transaction costs.

(2) Repossessed vehicles are typically sold within two months of repossession. As a result, fair value adjustments subsequent to repossession are not significant.

(3) Excludes $8 million of receivables held for sale at March 31, 2009 for which the fair value exceeds carrying value.

(4) During the three months ended March 31, 2009, goodwill with a carrying amount of $260 million allocated to our Insurance Services business and $2,034 million allocated to our Card and Retail Services businesses was written down to its implied fair value of $0 million and $1,641 million, respectively. Additionally, technology, customer lists and customer loan related relationship intangible assets totaling $34 million were written down to their implied fair value of $20 million during the three months ended March 31, 2009. No write-down of goodwill or intangible assets occurred during the three months ended March 31, 2010.

Fair Value of Financial Instruments

The fair value estimates, methods and assumptions set forth below for our financial instruments, including those financial instruments carried at cost, are made solely to comply with disclosures required by generally accepted accounting principles in the United States and should be read in conjunction with the financial statements and notes included in this quarterly report. The following table summarizes the carrying values and estimated fair value of our financial instruments at March 31, 2010 and December 31, 2009.

	March 31, 2010		December 31, 2009	
	Carrying Value	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
	(in millions)			
Financial assets:				
Cash	**$189**	**$189**	$311	$311
Interest bearing deposits with banks	**10**	**10**	17	17
Securities purchased under agreements to resell	**5,186**	**5,186**	2,850	2,850
Securities	**3,195**	**3,195**	3,187	3,187
Consumer receivables:				
Mortgage Services:				
First lien	**14,510**	**9,190**	15,200	8,824
Second lien	**2,248**	**645**	2,635	672
Total Mortgage Services	**16,758**	**9,835**	17,835	9,496
Consumer Lending:				
First lien	**31,546**	**21,725**	[illegible]	20,918
Second lien	**3,619**	**1,051**	[illegible]	1,149
Total Consumer Lending real estate secured receivables	**35,165**	**22,776**	[illegible]	22,067
Non-real estate secured receivables	**7,705**	**5,379**	[illegible]	5,848
Total Consumer Lending	**42,870**	**28,155**	[illegible]	27,915
Credit card	**9,197**	**8,685**	[illegible]	9,358
Auto Finance	**3,033**	**2,872**	[illegible]	3,348
Total consumer receivables	**71,858**	**49,547**	[illegible]	50,117
Receivables held for sale	**3**	**3**	536	536
Due from affiliates	**136**	**136**	123	123
Derivative financial assets	-	-	-	-
Financial liabilities:				
Commercial paper	**3,700**	**3,700**	4,291	4,291
Due to affiliates	**9,023**	[illegible]	[illegible]	9,259
Long-term debt carried at fair value	**26,690**	**26,690**	26,745	26,745
Long-term debt not carried at fair value	**39,798**	[illegible]	[illegible]	41,144
Insurance policy and claim reserves	**996**	[illegible]	[illegible]	1,092
Derivative financial liabilities	**45**	**45**	60	60

Receivable values presented in the table above were determined using the Fair Value Framework for measuring fair value, which is based on our best estimate of the amount within a range of value we believe would be received in a sale as of the balance sheet date (i.e. exit price). The secondary market demand and estimated value for our receivables has been heavily influenced by the deteriorating economic conditions during the past few years, including house price depreciation, rising unemployment, changes in consumer behavior, and changes in discount rates. Many investors are non-bank financial institutions or hedge funds with high equity levels and a high cost of debt. For certain consumer receivables, investors incorporate numerous assumptions in predicting cash flows, such as higher charge-off levels and/or slower voluntary prepayment speeds than we, as the servicer of these receivables, believe will ultimately be the case. The investor discount rates reflect this difference in overall cost of capital as well as the potential volatility in the underlying cash flow assumptions, the combination of which may yield a significant pricing discount from our intrinsic value. The estimated fair values at March 31, 2010 and December 31, 2009 reflect these market conditions.

Valuation Techniques
The following summarizes the valuation methodologies used for assets and liabilities recorded at fair value and for estimating fair value for financial instruments not recorded at fair value but for which fair value disclosures are required.

Cash:
Carrying value approximates fair value due to cash's liquid nature.

Interest bearing deposits with banks:
Carrying value approximates fair value due to the asset's liquid nature.

Securities purchased under agreements to resell:
The fair value of securities purchased under agreements to resell approximates carrying value due to the short-term maturity of the agreements.

Securities:
Fair value for our available-for-sale securities is generally determined by a third party valuation source. The pricing services generally source fair value measurements from quoted market prices and if not available, the security is valued based on quotes from similar securities using broker quotes and other information obtained from dealers and market participants. For securities which do not trade in active markets, such as fixed income securities, the pricing services generally utilize various pricing applications, including models, to measure fair value. The pricing applications are based on market convention and use inputs that are derived principally from or corroborated by observable market data by correlation or other means. The following summarizes the valuation methodology used for our major security types:

• U.S. Treasury, U.S. government agency issued or guaranteed and Obligations of U.S. States and political subdivisions - As these securities transact in an active market, the pricing services source fair value measurements from quoted prices for the identical security or quoted prices for similar securities with adjustments as necessary made using observable inputs which are market corroborated.

• U.S. government sponsored enterprises - For certain government sponsored mortgage-backed securities which transact in an active market, the pricing services source fair value measurements from quoted prices for the identical security or quoted prices for similar securities with adjustments as necessary made using observable inputs which are market corroborated. For government sponsored mortgage-backed securities which do not transact in an active market, fair value is determined using discounted cash flow models and inputs related to interest rates, prepayment speeds, loss curves and market discount rates that would be required by investors in the current market given the specific characteristics and inherent credit risk of the underlying collateral.

• Asset-backed securities - Fair value is determined using discounted cash flow models and inputs related to interest rates, prepayment speeds, loss curves and market discount rates that would be required by investors in the current market given the specific characteristics and inherent credit risk of the underlying collateral.

• U.S. corporate and foreign debt securities - For non-callable corporate securities, a credit spread scale is created for each issuer. These spreads are then added to the equivalent maturity U.S. Treasury yield to determine current pricing. Credit spreads are obtained from the new issue market, secondary trading levels and dealer quotes. For securities with early redemption features, an option adjusted spread ("OAS") model is incorporated to adjust the spreads determined above. Additionally, the pricing services will survey the broker/dealer community to obtain relevant trade data including benchmark quotes and updated spreads.

- Preferred equity securities - In general, for perpetual preferred securities, fair value is calculated using an appropriate spread over a comparable U.S. Treasury security for each issue. These spreads represent the additional yield required to account for risk including credit, refunding and liquidity. The inputs are derived principally from or corroborated by observable market data.

- Money market funds - Carrying value approximates fair value due to the asset's liquid nature.

Significant inputs used in the valuation of our investment securities include selection of an appropriate risk-free rate, forward yield curve and credit spread which establish the ultimate discount rate used to determine the net present value of estimated cash flows. For asset-backed securities, selection of appropriate prepayment rates, default rates and loss severities also serve as significant inputs in determining fair value. We perform validations of the fair values sourced from the independent pricing services at least quarterly. Such validation principally includes sourcing security prices from other independent pricing services or broker quotes. The validation process provides us with information as to whether the volume and level of activity for a security has significantly decreased and assists in identifying transactions that are not orderly. Depending on the results of the validation, additional information may be gathered from other market participants to support the fair value measurements. A determination will be made as to whether adjustments to the observable inputs are necessary as a result of investigations and inquiries about the reasonableness of the inputs used and the methodologies employed by the independent pricing services.

Receivables and Receivables held for sale:
The estimated fair value of our receivables was determined by developing an approximate range of value from a mix of various sources as appropriate for the respective pool of assets. These sources include, among other items, value estimates from an HSBC affiliate which reflect over-the-counter trading activity; forward looking discounted cash flow models using assumptions we believe are consistent with those which would be used by market participants in valuing such receivables; trading input from other market participants which includes observed primary and secondary trades; where appropriate, the impact of current estimated rating agency credit tranching levels with the associated benchmark credit spreads; and general discussions held directly with potential investors.

Model inputs include estimates of future interest rates, prepayment speeds, default and loss curves, and market discount rates reflecting management's estimate of the rate of return that would be required by investors in the current market given the specific characteristics and inherent credit risk of the receivables. Some of these inputs are influenced by home price changes and unemployment rates. To the extent available, such inputs are derived principally from or corroborated by observable market data by correlation and other means. We perform periodic validations of our valuation methodologies and assumptions based on the results of actual sales of such receivables. In addition, from time to time, we will engage a third party valuation specialist to measure the fair value of a pool of receivables. Portfolio risk management personnel provide further validation through discussions with third party brokers and other market participants. Since an active market for these receivables does not exist, the fair value measurement process uses unobservable significant inputs which are specific to the performance characteristics of the various receivable portfolios.

Real estate owned:
Fair value is determined based on third party appraisals obtained at the time we take title to the property and, if less than the carrying value of the loan, the carrying value of the loan is adjusted to the fair value. Within three months on the market, the carrying value is further reduced, if necessary, to reflect observable local market data, including local area sales data.

Repossessed vehicles:

Fair value is determined based on current Black Book values, which represent current observable prices in the wholesale auto auction market.

Due from affiliates:
Carrying value approximates fair value because the interest rates on these receivables adjust with changing market interest rates.

Commercial paper:
The fair value of these instruments approximates existing carrying value because interest rates on these instruments adjust with changes in market interest rates due to their short-term maturity or repricing characteristics.

Due to affiliates:
The estimated fair value of our fixed rate and floating rate debt due to affiliates was determined using discounted future expected cash flows at current interest rates and credit spreads offered for similar types of debt instruments.

Long-term debt:
Fair value was primarily determined by a third party valuation source. The pricing services source fair value from quoted market prices and, if not available, expected cash flows are discounted using the appropriate interest rate for the applicable duration of the instrument adjusted for our own credit risk (spread). The credit spreads applied to these instruments were derived from the spreads recognized in the secondary market for similar debt as of the measurement date. Where available, relevant trade data is also considered as part of our validation process.

Insurance policy and claim reserves:
The fair value of insurance reserves for periodic payment annuities was estimated by discounting future expected cash flows at estimated market interest rates.

Derivative financial assets and liabilities:
Derivative values are defined as the amount we would receive or pay to extinguish the contract using a market participant as of the reporting date. The values are determined by management using a pricing system maintained by HSBC Bank USA. In determining these values, HSBC Bank USA uses quoted market prices, when available, principally for exchange-traded options. For non-exchange traded contracts, such as interest rate swaps, fair value is determined using discounted cash flow modeling techniques. Valuation models calculate the present value of expected future cash flows based on models that utilize independently-sourced market parameters, including interest rate yield curves, option volatilities, and currency rates. Valuations may be adjusted in order to ensure that those values represent appropriate estimates of fair value. These adjustments, which are applied consistently over time, are generally required to reflect factors such as market liquidity and counterparty credit risk that can affect prices in arms-length transactions with unrelated third parties. Finally, other transaction specific factors such as the variety of valuation models available, the range of unobservable model inputs and other model assumptions can affect estimates of fair value. Imprecision in estimating these factors can impact the amount of revenue or loss recorded for a particular position.

Counterparty credit risk is considered in determining the fair value of a financial asset. The Fair Value Framework specifies that the fair value of a liability should reflect the entity's non-performance risk and accordingly, the effect of our own credit risk (spread) has been factored into the determination of the fair value of our financial liabilities, including derivative instruments. In estimating the credit risk adjustment to the derivative assets and liabilities, we take into account the impact of netting and/or collateral arrangements that are designed to mitigate counterparty credit risk.

18. Contingent Liabilities

Both we and certain of our subsidiaries are parties to various legal proceedings resulting from ordinary business activities relating to our current and/or former operations. Certain of these activities are or purport to be class actions seeking damages in very large amounts. These actions include assertions concerning violations of laws and/or unfair treatment of consumers.

We accrue for litigation-related liabilities when it is probable that such a liability has been incurred and the amount of the loss can be reasonably estimated. While the outcome of litigation is inherently uncertain, we believe, in light of all information known to us at March 31, 2010, that our litigation reserves are adequate at such date. We review litigation reserves at least quarterly, and the reserves may be increased or decreased in the future to reflect further relevant developments. We believe that our defenses to the claims asserted against us in our currently active litigation have merit and any adverse decision should not materially affect our consolidated financial condition. However, losses may be material to our results of operations for any particular future periods depending on our income level for that period.

On May 7, 2009, the jury in the class action
Jaffe v. Household International
Inc., et. al
returned a verdict partially in favor of the plaintiffs with respect to Household International and three former officers for certain of the claims arising out of alleged false and misleading statements made in connection with certain activities of Household International, Inc. between July 30, 1999 and October 11, 2002. Despite the verdict at the District Court level, we continue to believe, after consultation with counsel, that neither Household nor its former officers committed any wrongdoing and that we will either prevail on our outstanding motions to dismiss or that the Seventh Circuit will reverse the trial Court verdict upon appeal. As such, it is not probable a loss has been incurred as of March 31, 2010 as a result of this verdict. Therefore, no loss accrual was established as a result of the verdict.

19. New Accounting Pronouncements

Accounting for transfers of financial assets
In June 2009, the FASB issued guidance which amends the accounting for transfers of financial assets by eliminating the concept of a qualifying special-purpose entity ("QSPE") and provides additional guidance with regard to the accounting for transfers of financial assets. The guidance is effective for all interim and annual periods beginning after November 15, 2009. We adopted this guidance on January 1, 2010. The adoption of this guidance did not have any impact on our financial position or results of operations.

Accounting for consolidation of variable interest entities
In June 2009, the FASB issued guidance which amends the accounting rules related to the consolidation of variable interest entities ("VIE"). The guidance changes the approach for determining the primary beneficiary of a VIE from a quantitative risk and reward model to a qualitative model, based on control and economics. Effective January 1, 2010, certain VIEs which are not consolidated currently will be required to be consolidated. The guidance is effective for all interim and annual periods beginning after November 15, 2009. The adoption of this guidance on January 1, 2010 did not have an impact on our financial position or results of operations. See Note 16, "Special Purpose Entities," in these consolidated financial statements for additional information.

Improving Disclosures about Fair Value Measurements
In January 2010, the FASB issued guidance to improve disclosures about fair value measurements. The guidance requires entities to disclose separately the amounts of significant transfers in and out of Level 1

and Level 2 fair measurements and describe the reasons for the same. It also requires Level 3 reconciliation to be presented on a gross basis, while disclosing purchases, sales, issuances and settlements separately. The guidance is effective for interim and annual financial periods beginning after December 15, 2009 except for gross basis presentation for Level 3 reconciliation, which is effective for interim and annual periods beginning after December 15, 2010. We adopted the new disclosure requirements in their entirety effective January 1, 2010. See Note 17, "Fair Value Measurements" in these consolidated financial statements.

Subsequent Events

In February 2010, the FASB amended certain recognition and disclosure requirements for subsequent events. The guidance clarifies an entity that either (a) is an SEC filer, or (b) is a conduit bond obligor for conduit debt securities that are traded in a public market is required to evaluate subsequent events through the date the financial statements are issued and in all other cases through the date the financial statements are available to be issued. The guidance eliminates the requirement to disclose the date through which subsequent events are evaluated for an SEC filer. The guidance was effective upon issuance. Adoption did not have an impact on our financial position or results of operations.

Derivatives and Hedging

In March 2010, the FASB issued a clarification on the scope exception for embedded credit derivatives. The guidance eliminates the scope exception for bifurcation of embedded credit derivatives in interests in securitized financial assets, unless they are created solely by subordination of one financial debt instrument to another. The guidance is effective beginning in the first reporting period after June 15, 2010, with earlier adoption permitted for the quarter beginning after March 31, 2010. This clarification is not expected to have a material impact to our financial position or results of operations.

Item 2.

Management's Discussion and Analysis of Financial Condition and
Results of Operations

Forward-Looking Statements

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the consolidated financial statements, notes and tables included elsewhere in this report and with our Annual Report on Form 10-K for the year ended December 31, 2009 (the "2009 Form 10-K"). MD&A may contain certain statements that may be forward-looking in nature within the meaning of the Private Securities Litigation Reform Act of 1995. In addition, we may make or approve certain statements in future filings with the SEC, in press releases, or oral or written presentations by representatives of HSBC Finance Corporation that are not statements of historical fact and may also constitute forward-looking statements. Words such as "may," "will," "should," "would," "could," "appears," "believe," "intends," "expects," "estimates," "targeted," "plans," "anticipates," "goal" and similar expressions are intended to identify forward-looking statements but should not be considered as the only means through which these statements may be made. These matters or statements will relate to our future financial condition, economic forecast, results of operations, plans, objectives, performance or business developments and will involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from that which was expressed or implied by such forward-looking statements. Forward-looking statements are based on our current views and assumptions and speak only as of the date they are made. HSBC Finance Corporation undertakes no obligation to update any forward-looking statement to reflect subsequent circumstances or events.

Executive Overview