

**UNITED STATES OF AMERICA  
BEFORE THE  
BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM  
WASHINGTON, D.C.**

In the Matter of

HSBC NORTH AMERICA HOLDINGS, INC.  
New York, New York

Docket No. 10-202-B-HC

Cease and Desist Order Issued  
Upon Consent Pursuant to the  
Federal Deposit Insurance Act, as  
Amended

WHEREAS, HSBC North America Holdings, Inc., New York, New York (“HNAH”), a registered bank holding company, owns and controls HSBC Bank USA, National Association, McLean, Virginia (“HBUS”); HSBC Trust Company, National Association, Wilmington, Delaware; HSBC Bank Nevada, National Association, Las Vegas, Nevada (collectively, the “Banks”); HSBC Private Bank International, Miami, Florida, an Edge corporation organized under Section 25A of the Federal Reserve Act (12 U.S.C., § 611 et seq.); and multiple other nonbank subsidiaries;

WHEREAS, HNAH, which is a subsidiary of HSBC Holdings plc, London, England, is a large, complex organization that has a number of separate business lines and legal entities that must comply with a wide range of applicable rules and standards;

WHEREAS, HNAH has adopted a firmwide compliance risk management program designed to identify and manage compliance risks across the consolidated organization, including HNAH and all its subsidiaries, related to compliance with all applicable laws, rules, and regulations;

WHEREAS, HNAH’s firmwide compliance risk management program includes an

anti-money laundering (“AML”) program designed to identify and manage compliance risks, related to the Bank Secrecy Act (the “BSA”) (31 U.S.C. § 5311 et seq.); the rules and regulations issued thereunder by the U.S. Department of Treasury (31 C.F.R. Part 103); and the AML regulations issued by the appropriate federal supervisors for HNAH, the Banks, and HNAH’s other subsidiaries (collectively, the “BSA/AML Requirements”);

WHEREAS, it is the common goal of HNAH and the Board of Governors of the Federal Reserve System (the “Board of Governors”) that HNAH, on a firmwide basis, operates in compliance with all applicable federal and state laws, rules, and regulations, and that HNAH implements an effective firmwide compliance risk management program that is commensurate with HNAH’s compliance risk profile;

WHEREAS, the Federal Reserve Bank of Chicago (the “Reserve Bank”) reviewed and assessed the effectiveness of HNAH’s corporate governance and compliance risk management practices, policies, and internal controls, and identified deficiencies;

WHEREAS, HNAH and the Board of Governors have mutually agreed to enter into this consent Cease and Desist Order (the “Order”);

WHEREAS, on September 24, 2010, the board of directors of HNAH, at a duly constituted meeting, adopted a resolution authorizing Niall S. K. Booker to enter into this Order on behalf of HNAH, and consenting to compliance with each and every applicable provision of this Order by HNAH and its institution-affiliated parties, as defined in sections 3(u) and 8(b)(3) of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. §§ 1813(u) and 1818(b)(3)), and waiving any and all rights that HNAH may have pursuant to section 8 of the FDI Act (12 U.S.C. § 1818), including, but not limited to: (i) the issuance of a notice of charges; (ii) a hearing for the purpose of taking evidence on any matters

set forth in this Order; (iii) judicial review of this Order; (iv) contest the issuance of this Order by the Board of Governors; and (v) challenge or contest, in any manner, the basis, issuance, validity, terms, effectiveness or enforceability of this Order or any provision hereof.

NOW, THEREFORE, IT IS HEREBY ORDERED that, pursuant to sections 8(b)(1) and (3) of the FDI Act (12 U.S.C. §§1818(b)(1) and 1818(b)(3)), HNAH and its institution-affiliated parties shall cease and desist and take affirmative action as follows:

**Source of Strength**

1. The board of directors of HNAH shall take appropriate steps to fully utilize HNAH's financial and managerial resources, pursuant to section 225.4(a) of Regulation Y of the Board of Governors of the Federal Reserve System (the "Board of Governors") (12 C.F.R. § 225.4(a)), to serve as a source of strength to the Banks, including, but not limited to, taking steps to ensure that HBUS comply with the Consent Order issued by the Office of the Comptroller of the Currency regarding HBUS's BSA/AML program, and any other supervisory action taken by the Banks' federal or state regulators.

**Board Oversight**

2. Within 30 days of this Order, HNAH's board of directors shall submit to the Reserve Bank an acceptable written plan to strengthen board oversight of HNAH's compliance risk management program. The plan shall describe the actions that the board of directors will take to improve HNAH's firmwide compliance risk management, including, but not limited to, ensuring that compliance risk is effectively managed across HNAH, including within and across business lines, support units, legal entities, and jurisdictions in which HNAH and its subsidiaries operate. The plan shall, at a minimum, address, consider, and include:

(a) Funding for personnel, systems, and other resources as are needed to operate a compliance risk management program that is commensurate with the compliance risk profile of the organization and that fully addresses the organization's compliance risks on a timely and effective basis;

(b) policies to ensure that the compliance function has the appropriate status within the organization;

(c) measures to fully integrate compliance risk management into HNAH's existing risk management framework;

(d) policies to instill a proactive approach throughout the organization in identifying, communicating, and managing compliance risks;

(e) measures to ensure adherence to approved compliance policies, procedures, and standards;

(f) measures to hold management accountable for the timely completion of compliance related projects and initiatives;

(g) the timely resolution of audit, compliance reviews, and examination findings; and

(h) steps to improve the information and reports that will be regularly reviewed by the board of directors including, compliance risk assessments, and the status and results of measures taken, or to be taken, by senior officers to remediate outstanding compliance issues, to implement major compliance initiatives, and to comply with this Order.

3. Within 60 days of this Order, the board of directors shall take such actions as are necessary to employ a permanent full-time Regional Compliance Officer with demonstrated knowledge and experience in managing a compliance risk management program at an entity with

a complex compliance profile, including, but not limited to BSA/AML requirements. HNAH shall provide notice to the Reserve Bank of the proposed candidate for the Regional Compliance Officer position and afford the Reserve Bank an opportunity to comment.

### **Compliance Risk Assessment**

4. Within 30 days of this Order, the board of directors shall submit to the Reserve Bank a written firmwide compliance risk assessment. The risk assessment shall, at a minimum, address, consider, and include:

- (a) The scope and complexity of HNAH's activities, operations, and the jurisdictions in which HNAH and its subsidiaries operate;
- (b) a description of the scope, methodology, standards, and criteria utilized to identify and assess compliance risks throughout the organization;
- (c) an assessment of the controls adopted and implemented to mitigate compliance risks;
- (d) an evaluation of compliance risk exposure, taking into account risks inherent in business activities, the strength and effectiveness of established controls designed to mitigate risks, and the identification of residual risks, and
- (e) recommendations for improving compliance risk management, as appropriate.

### **Compliance Risk Management Program**

5. Within 60 days of submission of the firmwide compliance risk assessment pursuant to paragraph 4 of this Order, the board of directors shall submit an acceptable written plan to the Reserve Bank to improve the governance, structure, and operations of the compliance risk management program. The plan shall, at a minimum, address, consider, and include:

- (a) The structure and composition of HNAH's compliance committees and a determination of the optimum structure and composition needed to provide adequate oversight of HNAH's firmwide compliance risk management;
- (b) written policies, procedures, and compliance risk management standards;
- (c) procedures to ensure that committee minutes adequately detail the analysis and discussion of compliance risks and controls;
- (d) the independence and authority of the Regional Compliance Officer, compliance staff, compliance functions, and related compliance committees;
- (e) the duties and responsibilities of each HNAH senior compliance officer, and with respect to BSA/AML compliance functions, staff positions, including the reporting lines within HNAH, and between HNAH and its business lines and legal entities;
- (f) the identification of present and future management and staffing needs for HNAH's compliance risk management program, a process for periodically reevaluating staffing needs in relation to the organization's compliance risk profile, and management succession planning for key compliance positions including, but not limited to, the Regional Compliance Officer and the BSA/AML Officer;
- (g) management information systems and processes to identify compliance risk levels and trends, including documenting, measuring, assessing, and reporting key risk indicators, and controls to mitigate risks;
- (h) procedures to require documentation of exceptions to approved compliance policies and procedures and reporting of exceptions to senior officers and board committees;

- (i) procedures to require the escalation of significant matters related to compliance risks to appropriate senior officers and board committees;
- (j) the scope and frequency of compliance risk assessments;
- (k) a formal method to ensure effective communication of established compliance policies, procedures, and risk management standards and associated processes to all appropriate business lines and levels within the organization;
- (l) measures to ensure compliance and improve accountability within all business lines, and corporate and line of business compliance functions;
- (m) procedures for the periodic testing of the effectiveness of the compliance risk management program;
- (n) consistency with the Board of Governors guidance regarding Compliance Risk Management Programs and Oversight at Large Banking Organizations with Complex Compliance Profiles, dated October 16, 2008 (SR 08-8); and
- (o) the findings and recommendations of the consultant recently engaged by HNAH to review HNAH's firmwide compliance risk management program.

**BSA/AML Compliance Program**

6. Within 10 days of this Order, the board of directors of HNAH shall retain an independent consultant acceptable to the Reserve Bank to complete a review of the effectiveness of the firmwide BSA/AML compliance program adopted by HNAH (the "BSA/AML Review"), and to prepare a written report of findings and recommendations (the "BSA/AML Report"). The BSA/AML Review shall, at a minimum, address, consider, and include:

- (a) The structure of HNAH's firmwide BSA/AML compliance program, including reporting lines and the functions that HNAH performs for HNAH, the Banks, and HNAH's other subsidiaries;
- (b) firmwide standards for BSA/AML compliance;
- (c) the duties, responsibilities, and authority of the HNAH BSA/AML compliance officer, including reporting lines within HNAH and from each of HNAH's business lines and legal entities;
- (d) communication of BSA/AML related roles and responsibilities across the organization;
- (e) coordination between corporate BSA/AML compliance, the Banks, HNAH's other subsidiaries; and the line of business BSA/AML compliance functions;
- (f) processes for monitoring business line compliance with HNAH's BSA/AML policies and procedures and BSA/AML requirements;
- (g) processes for escalating and resolving significant compliance issues and for resolving disputes between corporate BSA/AML compliance staff and line of business management;
- (h) the extent to which the firmwide BSA/AML compliance program captures all relevant BSA/AML related compliance data from subsidiaries;
- (i) policies, procedures, and processes, including, but not limited to, those for identifying and investigating suspicious activity, and for filing suspicious activity reports;
- (j) the scope and frequency of reporting within HNAH, at a minimum, to senior management and board committees, as well as between HNAH and the business lines;
- (k) BSA/AML related risk assessments;



- (l) training; and
- (m) independent testing.

7. Within 10 days of the Reserve Bank's approval of the independent consultant selection, HNAH shall submit an engagement letter to the Reserve Bank for approval. The terms of the engagement shall require that the BSA/AML Review be completed within 45 days of this Order, and that the Report be submitted simultaneously to the board of directors of HNAH, and the Reserve Bank no later than 10 days after the completion of the BSA/AML Review.

8. Within 90 days of this Order, the board of directors of HNAH shall submit an acceptable written plan to the Reserve Bank that includes a description of the specific actions that HNAH proposes to take, or has taken, to strengthen the management and oversight of HNAH's firmwide BSA/AML compliance program, taking into account the requirements of the appropriate federal or state supervisor of HNAH's functionally regulated subsidiaries.

### **Suspicious Activity Monitoring and Reporting**

9. Within 60 days of the completion of the review described in paragraph 6 of this Order, HNAH shall submit to the Reserve Bank an acceptable written program designed to reasonably ensure the identification and timely, accurate, and complete reporting by HNAH and its subsidiaries of all known or suspected violations of law or suspicious transactions to law enforcement and supervisory authorities, as required by applicable suspicious activity reporting laws and regulations. At a minimum, the program shall include:

- (a) A methodology for assigning risk ratings to account holders, including affiliates, that considers factors such as type of customer, type of product or service, and geographic location;

(b) appropriate risk-based customer due diligence with respect to all customers, including affiliates, and as applicable, enhanced due diligence procedures;

(c) monitoring and investigation criteria and procedures to ensure the timely detection, investigation, and reporting of all known or suspected violations of law and suspicious transactions;

(d) a timetable to implement improvements to suspicious activity monitoring systems and processes firmwide; and

(e) measures to escalate significant matters, as appropriate, to senior management and the board of directors.

### **Progress Reports**

10. Within 30 days after the end of each calendar quarter following the date of this Order, the board of directors shall submit to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure compliance with this Order, a timetable and schedule to implement specific remedial actions to be taken to address the recommendation in the Report, and the results thereof.

### **Approval and Implementation of Plans, Program, and Engagement Letter**

11. (a) HNAH shall submit written plans and a program that are acceptable to the Reserve Bank within the applicable time periods set forth in paragraphs 2, 5, 8, and 9 of this Order. An independent consultant acceptable to the Reserve Bank shall be retained by HNAH within the time period set forth in paragraph 6 of this Order. An engagement letters shall be submitted to the Reserve Bank within the time period set forth in paragraph 7 of this Order.

(b) Within 10 days of approval by the Reserve Bank, HNAH shall adopt the approved plans and program. Upon adoption, HNAH shall promptly implement the approved

plans and program, and thereafter fully comply with them.

(c) During the term of this Order, the approved plans, program, and engagement letter shall not be amended or rescinded without the prior written approval of the Reserve Bank.

### **Communications**

12. All communications regarding this Order shall be sent to:

- (a) Ms. Wendy E. Kallery  
Assistant Vice President  
Federal Reserve Bank of Chicago  
230 South LaSalle Street  
Chicago, Illinois 60604-1413
- (b) Mr. Niall S. K. Booker  
Chief Executive Officer  
HNAH North America Holdings Inc.  
425 Fifth Avenue, 10<sup>th</sup> Floor  
New York, NY 10018

### **Miscellaneous**

13. Notwithstanding any provision of this Order to the contrary, the Reserve Bank may, in its sole discretion, grant written extensions of time to HNAH to comply with any provision of this Order.

14. The provisions of this Order shall be binding upon HNAH and its institution-affiliated parties, in their capacities as such, and their successors and assigns.

15. Each provision of this Order shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Reserve Bank.

16. The provisions of this Order shall not bar, estop, or otherwise prevent the Board of Governors, the Reserve Bank, or any other federal or state agency from taking any other

action affecting HNAH, the Banks, any nonbank subsidiary of HNAH, or any of their current or former institution-affiliated parties and their successors and assigns.

By Order of the Board of Governors effective this 4<sup>th</sup> day of October, 2010.

HSBC NORTH AMERICA  
HOLDINGS, INC.

BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM

By: /s/ Niall S. K. Booker  
Niall S. K. Booker  
Chief Executive Officer

By: /s/ Jennifer J. Johnson  
Jennifer J. Johnson  
Secretary of the Board