

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

In the Matter of

MARK JOHNSON and
STUART SCOTT

Institution-Affiliated Parties of
HSBC Holdings plc and
HSBC Bank plc
London, United Kingdom

Docket No. 16-023-G-I

Notice of Suspension and Prohibition
Issued Pursuant to Section 8(g)(1)(A) of
the Federal Deposit Insurance Act, as
amended

The Board of Governors of the Federal Reserve System (the “Board of Governors”) is of the opinion or has reasonable cause to believe that:

(A) On July 19, 2016, the U.S. Department of Justice filed a criminal complaint against Mark Johnson and Stuart Scott (“Respondents”) in the United States District Court for the Eastern District of New York, and arrested Respondent Johnson pursuant to an arrest warrant granted under the complaint.

(B) On August 16, 2016, a federal grand jury charged Respondents by indictment with multiple counts of wire fraud and conspiracy to commit wire fraud. *See United States v. Johnson*, No. 1:16-cr-457, Dkt 9 (E.D.N.Y. Aug. 16, 2016) (“the Indictment”).

(C) The charges in the Indictment concern, among other things, the trading activity of Respondents on December 7, 2011, as institution-affiliated parties (“IAPs”) of HSBC Bank plc (“HBEU”), a foreign bank and subsidiary of HSBC Holdings plc (“HSBC Holdings”), a registered bank holding company. This activity occurred, in part, in New York, New York, at

the offices of HSBC Bank USA, National Association (“HBUS”), a subsidiary of HSBC Holdings and an affiliate of HBEU (HBEU, HBUS, and HSBC Holdings, hereinafter referred to collectively as “HSBC”).

(D) The Indictment charges that between about November and December 2011, Respondents committed wire fraud and conspiracy to commit wire fraud, in violation of 18 U.S.C. §§ 1343 and 1349, against a “Victim Company.” The alleged wire fraud involves dishonesty or breach of trust and is punishable by imprisonment for a term exceeding one year within the meaning of section 8(g)(1)(A) of the of the Federal Deposit Insurance Act (“FDI Act”), 12 U.S.C. § 1818(g)(1)(A).

(E) Respondents’ continued service or participation in the conduct of the affairs of any relevant depository institution posed, poses, or may pose a threat to the interests of depositors of such institution, or threatened, threatens, or may threaten to impair public confidence in such institution, pursuant to section 8(g) of the FDI Act.

THEREFORE NOTICE IS HEREBY GIVEN by the Board of Governors that pursuant to section 8(g)(1)(A) of the FDI Act, 12 U.S.C. § 1818(g)(1)(A), Respondent Johnson is suspended from office at HBEU and Respondents Johnson and Scott are each prohibited from participating in any manner in the conduct of the affairs of any insured depository institution, holding company thereof, foreign bank, or any institution specified in section 8(e)(7)(A) of the FDI Act, 18 U.S.C. § 1818(e)(7)(A); and such prohibitions shall remain in effect until the Indictment (or any superseding indictment) is finally disposed of, or such prohibitions are terminated by the Board of Governors;

In support of this Notice, which applies individually to each Respondent, the Board of Governors alleges as follows:

JURISDICTION

1. HSBC Holdings is a registered bank holding company subject to the jurisdiction of the Board of Governors under the Bank Holding Company Act, 12 U.S.C. § 1841 *et seq.*, and section 8 of the FDI Act, 12 U.S.C. § 1818. HBEU is a subsidiary of HSBC Holdings and a foreign bank subject to the jurisdiction of the Board of Governors under the International Banking Act, 12 U.S.C. § 3101(7), and section 8 of the FDI Act, 12 U.S.C. § 1818. Accordingly, the Board of Governors is the appropriate Federal banking agency within the meaning of sections 3(q)(3) and 8(g)(1)(A) of the FDI Act, 12 U.S.C. §§ 1813(q)(3) and 1818(g)(1)(A).

2. In 2011 and during the relevant time period, Respondent Johnson was a managing director at HSBC and was employed as the global head of foreign exchange (“FX”) cash trading at HBEU, in which capacity he supervised FX trading desks for both HBEU in London and HBUS in New York. Accordingly, Johnson is an IAP of HBEU, as defined in sections 3(u), 8(b)(3) and 8(i)(3) of the FDI Act, 12 U.S.C. §§ 1813(u), 1818(b)(3) and 1818(i)(3).

3. In 2011 and during the relevant time period, Respondent Scott, another HSBC executive, reported to Johnson and was employed as the head of FX trading for Europe, the Middle East, and Africa. Accordingly, Scott is an IAP of HBEU, as defined in sections 3(u), 8(b)(3) and 8(i)(3) of the FDI Act, 12 U.S.C. §§ 1813(u), 1818(b)(3) and 1818(i)(3).

FACTUAL ALLEGATIONS

4. According to the Indictment, in 2011, the Victim Company was to receive about 3.5 billion US dollars in proceeds from a sale of one of its assets that it needed convert into Pound sterling and then distribute to its shareholders. The Victim Company retained HSBC in advance of the distribution to convert the US dollars to Pound sterling.

5. In obtaining this business, HSBC allegedly represented to the Victim Company that it would obtain “best execution” for the currency exchange and perform the trade in a manner intended to dampen volatility and achieve a favorable rate for the Victim Company.

6. As senior supervisors within HBEU responsible for FX transactions of this kind, Respondents Johnson and Scott were responsible for the strategy and execution of the Victim Company’s trade in accordance with HSBC’s representations to the Victim Company.

7. Knowledge of the Victim Company’s FX transaction was treated as highly confidential “insider information” within HSBC, with only select HSBC employees having direct knowledge of the transaction, including Respondents who were obligated not to misuse the information.

8. However, based upon audio recordings and other evidence, the Indictment charges that Respondents traded ahead of the FX transaction in a manner that benefitted their trading books and harmed the Victim Company.

9. Moreover, in the hours and minutes leading up to the benchmark rate used to price the currency exchange, the Indictment alleges that HSBC, with Respondents’ knowledge, executed the trade in a manner intended to drive up the benchmark rate, to the Victim Company’s detriment.

10. Further, the Indictment alleges that when the Victim Company became alarmed by the spike in the currency price on the day of its trade, HSBC employees, including Scott, attempted to alleviate their client’s concerns by attributing the spike to another buyer in the market rather than HSBC’s aggressive trading strategy, which Scott allegedly knew to be false.

11. Although Respondent Scott was based in and traded from London on the day of the FX transaction, Respondent Johnson supervised execution of the FX transaction while in

New York using the assistance of HBUS's FX trading facilities.

12. On July 19, 2016, the U.S. Department of Justice filed the criminal complaint against Respondents and arrested Johnson based upon, among other things, the factual allegations stated above. Johnson was released on bond on July 20, 2016. Scott, who is believed to be in the United Kingdom and was terminated from HSBC in 2014, has not answered the charges against him in the Indictment.

13. Continued participation by Respondents in the affairs of HSBC may threaten to impair public confidence in HSBC. As a result of the Respondents' misconduct described in the Indictment, numerous news articles have noted that the criminal proceedings have further damaged the reputation of HSBC both in the United States and globally. Respondents' involvement with HSBC's FX trading activities as stated in the Indictment generated, and will likely continue to generate, adverse publicity for HSBC.

14. The negative publicity created by the pending criminal action against Respondents, the serious nature of the allegations contained in the Indictment, and the particular crime involved, all serve to impair public confidence in HSBC.

PROCEDURES

Within thirty (30) days of service of this Notice, a Respondent may file a request for an informal hearing regarding his or her individual suspension pursuant to section 8(g)(3) of the FDI Act, 12 U.S.C. § 1818(g)(3), and Subpart D of the Rules of Practice for Hearings of the Board of Governors (the "Rules of Practice"), 12 C.F.R. § 263.72. The request shall be filed in writing with the Secretary of the Board of Governors. Upon receipt of a timely request for an informal hearing, the Secretary shall promptly issue an order directing an informal hearing concerning the Respondent's suspension to commence within 30 days of the receipt of the

request, which hearing will be conducted in the manner prescribed in section 8(g)(3) of the FDI Act, 12 U.S.C. § 1813(g)(3), and Subpart D of the Rules of Practice, 12 C.F.R. § 263.73. A Respondent may waive in writing his or her right to an oral hearing and instead elect to have the matter determined by the Board of Governors solely on the basis of written submissions. The failure of any Respondent to individually file a timely written request for an informal hearing shall be deemed to be a waiver of his or her right to request such a hearing of that Respondent's suspension.

By order of the Board of Governors of the Federal Reserve System, effective this 5th day of October 2016.

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By: /s/ Robert deV. Frierson
Robert deV. Frierson
Secretary of the Board