

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

In the Matter of

HSBC HOLDINGS PLC
London, United Kingdom

and

HSBC NORTH AMERICA HOLDINGS INC.
New York, New York

Docket Nos. 17-010-B-FB
 17-010-B-HC
 17-010-CMP-FB
 17-010-CMP-HC

Order to Cease and Desist and
Order of Assessment of a Civil Money
Penalty Issued Upon Consent Pursuant
to the Federal Deposit Insurance Act, as
Amended

WHEREAS, HSBC Holdings plc, London, United Kingdom (“Holdings”), a registered bank holding company, is a large complex financial organization that has a number of separate business lines and legal entities in many countries around the world, including, HSBC Bank plc, London, United Kingdom (“HBEU”), a foreign bank as defined in section 1(b)(7) of the International Banking Act (12 U.S.C. § 3101(7)) and a subsidiary of Holdings;

WHEREAS, Holdings conducts its operations in the United States through HSBC North America Holdings Inc., New York, New York (“HNAH”), a U.S. bank holding company and an indirect wholly-owned subsidiary of Holdings, which indirectly owns and controls HSBC Bank USA, National Association, McLean, Virginia (“HBUS”) and various other bank and nonbank subsidiaries (Holdings, HBEU, HNAH, and HBUS collectively referred to as “HSBC” or “Bank”);

WHEREAS, HSBC oversees regulatory compliance and risk management across HSBC’s legal entities and global businesses;

WHEREAS, the Board of Governors of the Federal Reserve System (the “Board of Governors”) is the appropriate federal supervisor in the United States of Holdings and HNAH;

WHEREAS, through various subsidiaries of Holdings, including HBEU and HBUS, HSBC serves as a foreign exchange (“FX”) dealer, both in the United States and in its offices abroad, by buying and selling U.S. dollars and foreign currency for its own account and by soliciting and receiving orders through communications between customers and sales personnel that are executed in the spot market (“Covered FX Activities”);

WHEREAS, in soliciting and receiving orders from customers in its Covered FX Activities, personnel of various subsidiaries of Holdings, including HBEU and HBUS, may provide customers with, among other things, price quotes for specific prospective transactions and the prices and amounts of currency purchased or sold in trades based on customers’ orders;

WHEREAS, in addition to soliciting and receiving orders from customers in its Covered FX Activities, through various subsidiaries of Holdings, including HBEU and HBUS, HSBC engages in other trading activities and related sales activities involving FX, including FX trading where a customer directly inputs an order through an electronic platform, and further engages in wholesale markets for commodities and interest rate products where HSBC acts as principal, prices and rates are or can be influenced by industry benchmark prices or rates, and compliance and control risk factors and vulnerabilities are similar to those related to Covered FX Activities (together with Covered FX Activities, “Designated Market Activities”);

WHEREAS, the Board of Governors expects HSBC to have an effective and comprehensive compliance risk management framework that includes strong governance over compliance risk at all levels of management, appropriate policies and procedures, rigorous surveillance and escalation mechanisms, and staff training programs that thoroughly address

compliance risks;

WHEREAS, HSBC has conducted a review of its Covered FX Activities occurring from October 2008 through October 2013 (the “Review Period”), has identified and reported relevant conduct to the Board of Governors and the Federal Reserve Bank of Chicago (“Reserve Bank”), has fully cooperated with the Board of Governors and the Reserve Bank and has made and continues to make progress in implementing enhancements to its firm-wide compliance systems and controls that are designed to address deficiencies in its Covered FX Activities;

WHEREAS, on November 11, 2014, HBEU reached a settlement with the United Kingdom Financial Conduct Authority (“FCA”) relating to a breach of principle 3 of the FCA’s Principles for Businesses, in connection with the FCA’s investigation into the wholesale FX trading market, which, among other things, required HBEU to undertake certain improvements to its internal controls and compliance program;

WHEREAS, on November 11, 2014, HBEU consented to the issuance of an Order by the Commodity Futures Trading Commission relating to FX activities, which, among other things, required HBEU to undertake certain improvements to its internal controls and compliance program;

WHEREAS, the Board of Governors has been conducting an investigation into the practices of HSBC and its direct and indirect subsidiaries relating to FX activities;

WHEREAS, during the Review Period:

A. HSBC, through various subsidiaries of Holdings, including HBEU and HBUS, lacked adequate governance, risk management, compliance, and audit policies and procedures to ensure that HSBC’s Covered FX Activities complied with safe and sound banking practices and applicable internal policies;

B. Prior to December 2012, certain FX traders in the spot market at HBEU and HBUS routinely communicated with FX traders at other financial institutions through chatrooms on electronic messaging platforms accessible by traders at multiple institutions;

C. HSBC's deficient policies and procedures prevented it from detecting and addressing unsafe and unsound conduct by certain of its FX traders at HBEU and HBUS, including in communications by traders in multibank chatrooms, consisting of:

(i) two of its senior traders, including the Bank's global head of FX cash trading, misusing confidential inside information to conduct FX trades in a manner that benefitted them and their trading desk to the detriment of HBEU's corporate client, which resulted in the traders' indictment by a federal grand jury on multiple counts of wire fraud and conspiracy to commit wire fraud, *United States v. Johnson*, No. 1:16-cr-457, Dkt 9 (E.D.N.Y. Aug. 16, 2016);

(ii) possible agreements with traders of other institutions to coordinate FX trading in a manner designed to influence benchmark fixes and market prices generally;

(iii) attempts to influence contributions to a submission-based foreign currency benchmark in a certain emerging market currency in order to possibly benefit HSBC;

(iv) trading strategies that raised potential conflicts of interest; and

(v) disclosures to traders of other institutions of confidential information of HSBC.

D. As a result of the deficient policies and procedures described above during the Review Period, HSBC, through HBEU and HBUS, engaged in unsafe and unsound banking practices;

WHEREAS, to address the deficiencies described above, HSBC has made and must

continue to implement additional improvements in its oversight, internal controls, compliance, risk management and audit programs for Designated Market Activities in order to comply with HSBC policies, safe and sound banking practices, and applicable U.S. laws and regulations;

WHEREAS, the Board of Governors, the Reserve Bank, and HSBC have the common goal to ensure that HSBC conducts its activities in a safe and sound manner and complies with U.S. laws, rules, and regulations that apply to the activities of the HSBC organization, and that HSBC fosters a strong commitment towards compliance;

WHEREAS, HSBC has conducted comprehensive remediation initiatives, including automating certain trading activities, and is committed to remediating the risks identified in the investigation into the Covered FX Activities;

WHEREAS, the Board of Governors is issuing this Consent Order to Cease and Desist and Assessment of a Civil Money Penalty (“Order”);

WHEREAS, pursuant to delegated authority, the undersigned signatories for Holdings and HNAH are authorized to enter into this Order on behalf of Holdings and HNAH, respectively, and consent to compliance with each and every provision of this Order, and to waive any and all rights that each may have pursuant to section 8 of the Federal Deposit Insurance Act, as amended (the “FDI Act”) (12 U.S.C. § 1818), including, but not limited to: (i) the issuance of a notice of charges on any matters set forth in this Order; (ii) a hearing for the purpose of taking evidence on any matters set forth in this Order; (iii) judicial review of this Order; and (iv) 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 by the Board of Governors that, before the filing of the notices, or taking of any testimony, or adjudication of or finding on any issues of

fact or law herein, and solely for the purpose of settling this matter without a formal proceeding being filed and without the necessity for protracted or extended hearings or testimony, pursuant to sections 8(b)(1), (3) and (4) of the FDI Act (12 U.S.C. §§ 1818(b)(1), 1818(b)(3), and 1818(b)(4)), HSBC and its institution-affiliated parties, as defined in sections 3(u), 8(b)(3) and 8(b)(4) of the FDI Act (12 U.S.C. §§ 1813(u), 1818(b)(3), and 1818(b)(4)), shall cease and desist and take affirmative action as follows:

Internal Controls and Compliance Program

1. Within 90 days of this Order, Holdings and HNAH shall submit an enhanced written internal controls and compliance program acceptable to the Reserve Bank to comply with applicable U.S. laws and regulations with respect to HSBC's Designated Market Activities. The program shall, at a minimum, address, consider, and include:

(a) enhancement of comprehensive policies and procedures to ensure compliance with applicable U.S. laws and regulations by HSBC's global business lines that engage in Designated Market Activities and a review of HSBC's policies and procedures relating to its Designated Market Activities, including conflict of interest policies, client confidentiality policies, and a code of conduct or other statement of conduct or policies;

(b) provisions that clearly identify the Designated Market Activities covered by the policies and procedures;

(c) measures to ensure compliance with policies and applicable U.S. laws and regulations applicable to Designated Market Activities by HSBC's global business lines;

(d) the duties and responsibilities of personnel responsible for overseeing compliance with policies and procedures relating to HSBC's Designated Market Activities, including the reporting lines within HSBC;

(e) policies and procedures that define management responsibilities and

establish accountability within all business lines that engage in Designated Market Activities;

(f) a comprehensive and effective system of internal controls to monitor and detect potential employee misconduct in connection with HSBC's Designated Market Activities, which shall include, but not be limited to, transaction monitoring and communication surveillance that is commensurate with the level and nature of the risks inherent in the market;

(g) establishment of comprehensive policies and procedures to ensure that sales personnel and traders do not communicate inaccurate or misleading information to customers regarding: (i) the amount of markup, commission, or other service charge applied to customer orders; and (ii) how orders are executed;

(h) a revised code of conduct or other statement of conduct or policies for employees engaged in Designated Market Activities that establishes rules and procedures governing, among other matters, (i) the types of communications media employees may use to communicate with employees at other institutions that trade in the same financial instruments or products and the circumstances when employees may use these communications media; (ii) the types of trading information of HSBC that may be disclosed to employees of other institutions that trade in the same financial instruments or products; (iii) the types of information and circumstances under which confidential customer information may be shared outside of HSBC; and (iv) appropriate conduct in responding to potential conflicts of interest with customers that place orders for execution by HSBC, including procedures for the timing of the execution of customer orders;

(i) enhancement of the compliance reporting process for HSBC's Designated Market Activities that is widely publicized within the global organization and integrated into HSBC's other reporting systems, through which employees report known or

suspected violations of HSBC's policies and U.S. laws and regulations, and that includes a process designed to ensure that known or suspected violations are promptly escalated to appropriate personnel for appropriate resolution and reporting; and

(j) training for HSBC's employees engaged in Designated Market Activities in conduct-related issues appropriate to the employee's job responsibilities that is provided on an ongoing, periodic basis.

Compliance Risk Management Program

2. Within 90 days of this Order, Holdings and HNAH shall submit a written plan acceptable to the Reserve Bank to improve its compliance risk management program with regard to compliance by HSBC with applicable U.S. laws and regulations with respect to Designated Market Activities firm-wide. The plan shall, at a minimum, address, consider, and include:

(a) identification of all business lines that engage in Designated Market Activities and the attendant legal and compliance risks to ensure that such activities are appropriately risk-rated and included in the firm-wide compliance risk assessment;

(b) completion, within 90 days of the Reserve Bank's approval of the plan, of a firm-wide risk assessment to evaluate current potential conduct risks associated with all areas relating to HSBC's Designated Market Activities;

(c) prior to trading new financial products or instruments in connection with HSBC's Designated Market Activities, a review of potential risks, including, but not limited to, reputational risk, fraud risk, and potential for misconduct associated with the proposed new activity;

(d) development of comprehensive risk assessment processes for HSBC's Designated Market Activities, which shall identify: (i) the scope and frequency of such reviews,

(ii) compliance risks, and (iii) all applicable risk factors and mitigating controls; and

(e) measures to ensure that material risk management issues related to potential employee misconduct in connection with HSBC's Designated Market Activities are escalated to and addressed in a timely manner by senior management and the board of directors of HNAH and Holdings, or a committee thereof, as appropriate.

Controls Review

3. (a) During the term of this Order, to ensure that the internal controls of the Bank required under paragraph 1 of this Order are functioning effectively to detect, correct, and report misconduct with regard to Designated Market Activities, Holdings and HNAH, utilizing personnel who are independent of the business line and acceptable to the Reserve Bank, shall conduct on an annual basis: (i) a review of compliance policies and procedures applicable to HSBC's Designated Market Activities and their implementation, and (ii) an appropriate risk-focused sampling of other key controls for HSBC's Designated Market Activities (the "Controls Review").

(b) The results of each Controls Review shall be submitted to the Reserve Bank within 90 days of the corresponding anniversary date of this Order. Upon request, HSBC shall provide to the Reserve Bank the materials relied upon in conducting each Controls Review.

Internal Audit

4. Within 90 days of this Order, Holdings and HNAH shall submit an enhanced written internal audit program acceptable to the Reserve Bank with respect to HSBC's compliance with applicable U.S. laws and regulations as well as HSBC's internal policies and procedures in its Designated Market Activities. The program shall, at a minimum, address,

consider, and include:

- (a) periodic internal audit reviews of business line controls and compliance detection and monitoring processes, as applicable, designed to identify and prevent potential misconduct in connection with HSBC's Designated Market Activities;
- (b) enhanced escalation procedures for the timely resolution of material audit exceptions and recommendations in connection with HSBC's Designated Market Activities; and
- (c) the periodic review of risk assessments to ensure emerging risks associated with HSBC's Designated Market Activities are appropriately identified and monitored.

Assessment of Civil Money Penalty

5. The Board of Governors hereby assesses Holdings and HNAH a civil money penalty in connection with Covered FX Activities in the amount of \$175,296,000, which shall be remitted at the time of the execution of this Order by Fedwire transfer of immediately available funds to the Federal Reserve Bank of Richmond, ABA No. 1000033, beneficiary, Board of Governors of the Federal Reserve System. This penalty is a penalty paid to a government agency for a violation of law for purposes of 26 U.S.C. § 162(f) and 26 C.F.R. § 1.162-21. The Federal Reserve Bank of Richmond, on behalf of the Board of Governors, shall distribute this sum to the U.S. Department of the Treasury, pursuant to section 8(i) of the FDI Act (12 U.S.C. § 1818(i)).

Approval, Implementation, and Progress Reports

6. (a) Holdings and HNAH shall submit the written plans and programs that are acceptable to the Reserve Bank as set forth in paragraphs 1, 2, and 4 of this Order. Each plan or program shall contain a timeline for full implementation of the plan or program with

specific deadlines for the completion of each component of the plan or program.

(b) Within 10 days of approval by the Reserve Bank, Holdings and HNAH shall adopt the approved plans and programs. Upon adoption, Holdings and HNAH shall promptly implement the approved plans and programs and thereafter fully comply with them.

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

7. Within 30 days after the end of the first full calendar quarter following the date of this Order, and quarterly thereafter, Holdings and HNAH shall submit to the Reserve Bank written progress reports detailing the form and manner of all actions taken to secure compliance with the provisions of this Order and the results thereof.

Accountability for Employees Involved in Misconduct

8. HSBC shall not in the future directly or indirectly retain any individual as an officer, employee, agent, consultant, or contractor of HSBC who, based on the investigative record compiled by HSBC, has done all of the following: (i) participated in the misconduct underlying this Order, (ii) been subject to formal disciplinary action as a result of HSBC's internal disciplinary review or performance review in connection with the conduct described above, and (iii) either separated from HSBC or had his or her employment terminated in connection with the conduct described above.

9. HSBC shall continue to fully cooperate with and provide substantial assistance to the Board of Governors, including, but not limited to, the provision of information, testimony, documents, records, and other tangible evidence and perform analyses as directed by the Board of Governors in connection with the investigations of whether separate enforcement actions should be taken against individuals who are or were institution-affiliated parties of HSBC and

who were involved in the misconduct underlying this Order. For purposes of clarity and not limitation, substantial assistance as used in this Order means HSBC will use its best efforts, as determined by the Board of Governors, to make available for interviews or testimony, as requested by the Board of Governors, present or former officers, directors, employees, agents, and consultants of HSBC. This obligation includes, but is not limited to, sworn testimony pursuant to administrative subpoena as well as interviews with regulatory authorities. Cooperation under this paragraph shall also include identification of witnesses who, to the knowledge of HSBC, may have material information regarding the matters under investigation, and the preparation and provision of trading analyses.

Notices

10. All communications regarding this Order shall be sent to:
 - (a) Richard M. Ashton
Deputy General Counsel
Patrick M. Bryan
Assistant General Counsel
Board of Governors of the Federal Reserve System
20th & C Streets, N.W.
Washington, D.C. 20551
 - (b) Cathy Lemieux
Executive Vice President, Supervision and Regulation
Federal Reserve Bank of Chicago
230 South LaSalle Street
Chicago, Illinois 60604-1413
 - (c) Mark A. Steffensen
Senior Executive Vice President and General Counsel
HSBC North America Holdings, Inc.
425 Fifth Avenue, 10th Floor
New York, New York 10018
 - (d) Stuart A. Levey
Chief Legal Officer
HSBC Holdings plc
8 Canada Square

London E14 5HQ

With a copy to:

Jennifer G. Newstead
Davis Polk & Wardwell LLP
450 Lexington Avenue
New York, NY 10017

Miscellaneous

11. Notwithstanding any provision of this Order to the contrary, the Reserve Bank may, in its sole discretion, grant written extensions of time to Holdings and HNAH.

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

13. Each provision of this Order shall remain effective and enforceable until stayed, modified, terminated, or suspended in writing by the Board of Governors.

14. Except as otherwise provided in this paragraph, the Board of Governors hereby agrees not to initiate any further enforcement actions, including for civil money penalties, against HSBC, and its affiliates, successors, and assigns, with respect to the conduct involving Covered FX Activities described in the WHEREAS clauses of this Order to the extent known by the Board of Governors as of the effective date of this Order. This release and discharge shall not preclude or affect (i) any right of the Board of Governors to determine and ensure compliance with this Order, (ii) any proceedings brought by the Board of Governors to enforce the terms of this Order, or (iii) any proceedings brought by the Board of Governors against individuals who are or were institution-affiliated parties of HSBC.

15. Except as provided in paragraph 14, the provisions of this Order shall not bar or otherwise prevent the Board of Governors, the Reserve Bank, or any federal or state agency from taking any other action affecting the Bank or any of its current or former institution-affiliated

parties and its successors and assigns.

16. Nothing in this Order, express or implied, shall give to any person or entity, other than the parties hereto and their successors hereunder, any legal or equitable right, remedy, or claim under this Order.

By Order of the Board of Governors of the Federal Reserve System effective this
29th day of September, 2017.

HSBC HOLDINGS PLC

BOARD OF GOVERNORS OF THE
FEDERAL RESERVE SYSTEM

By: /s/ Stuart A. Levey

By: /s/ Ann E. Misback
Ann E. Misback
Secretary of the Board

HSBC NORTH AMERICA HOLDINGS INC.

By: /s/ Mark A. Steffensen