

UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
COMPTROLLER OF THE CURRENCY

)	
In the Matter of:)	
)	AA-EC-10-98
HSBC Bank USA, N.A.)	
McLean, Virginia)	
)	
)	

CONSENT ORDER

The Comptroller of the Currency of the United States of America ("Comptroller"), through his national bank examiners and other staff of the Office of the Comptroller of the Currency ("OCC"), has conducted an examination and investigation of the Payments and Cash Management ("PCM"), Global Banknotes, and foreign correspondent operations of HSBC Bank USA, N.A., McLean, Virginia ("Bank"). The OCC has identified deficiencies in the Bank's internal controls for these areas as well as in its overall program for Bank Secrecy Act/anti-money laundering ("BSA/AML") compliance and has informed the Bank of the findings resulting from the examination and investigation.

The Bank, by and through its duly elected and acting Board of Directors ("Board"), has executed a "Stipulation and Consent to the Issuance of a Consent Order," dated October 6, 2010, that is accepted by the Comptroller. By this Stipulation and Consent, which is incorporated by reference, the Bank has consented to the issuance of this Consent Cease and Desist Order ("Order") by the Comptroller. The Bank has committed to taking all necessary and appropriate steps to remedy the deficiencies identified by the OCC, and to enhance the Bank's BSA/AML compliance program.

ARTICLE I

COMPTROLLER'S FINDINGS

The Comptroller finds, and the Bank neither admits nor denies, the following:

(1) The OCC's examination findings establish that the Bank has deficiencies in its BSA/AML compliance program. These deficiencies have resulted in a BSA/AML compliance program violation under 12 U.S.C. § 1818(s) and its implementing regulation, 12 C.F.R. § 21.21 (BSA Compliance Program). In addition, the Bank has violated 12 C.F.R. § 21.11 (Suspicious Activity Report Filings); and 31 U.S.C. § 5318(i) and its implementing regulation, 31 C.F.R. § 103.176 (Correspondent Banking).

The Bank has failed to adopt and implement a compliance program that adequately covers the required BSA/AML program elements, including, in particular, internal controls for customer due diligence, procedures for monitoring suspicious activity, and independent testing. The Bank's compliance program and its implementation are ineffective, and accompanied by aggravating factors, such as highly suspicious activity creating a significant potential for unreported money laundering or terrorist financing.

Some of the critical deficiencies in the elements of the Bank's BSA/AML compliance program include the following:

(A) The Bank has excluded from automated BSA/AML monitoring wire transfers initiated by customers domiciled in countries risk rated as "standard" or "medium," representing two-thirds of total dollar volume for PCM. While the Bank has employed other methods for monitoring wire transactions for customers located in countries risk rated standard or medium, these alternatives have provided limited

coverage, have not been effective, and have not mitigated the BSA/AML risks posed;

(B) During mid-2006 through mid-2009, the Bank did not perform BSA/AML monitoring for banknote (or "bulk cash") transactions with Group Entities (defined as the Bank's foreign affiliates in which the Bank's parent, HSBC Holdings plc, London, England ("HSBC Group"), holds a majority interest);

(C) The Bank has not collected or maintained customer due diligence ("CDD") or enhanced due diligence ("EDD") information for Group Entities. The Bank has transacted extensive wire transfers and purchases of United States bulk cash with Group Entities. The lack of due diligence information has inhibited the Bank's assessment of customer risk and the identification of suspicious activity in Group Entity accounts;

(D) The Bank has been unable to disposition its alerts appropriately or to comply fully with its obligation to report suspicious activity on time. As part of the 2009-10 examination, the OCC cited the Bank for its backlog of unprocessed alerts. The Bank's subsequent review of the backlogged alerts led it to file a substantial number of late Suspicious Activity Reports ("SARs") with law enforcement authorities; and

(E) The Bank has not appropriately designated customers as "high-risk" for purposes of BSA/AML monitoring, even where a customer's association with politically-exposed persons ("PEPs") could harm the Bank's reputation.

(2) The above violations and failures were the result of a number of factors, including, among others, (i) inadequate staffing and procedures in the alert investigations unit that resulted in a significant backlog of alerts; (ii) the closure of alerts based on ineffective review; (iii) inadequate monitoring of Group Entities' correspondent accounts for purpose and anticipated activity, anti-money laundering record, or consistency between actual and anticipated account activity; (iv) unwarranted reliance on Group Entities' following HSBC Group BSA/AML policies; (v) inadequate monitoring of funds transfers; (vi) inadequate procedures to ensure the timely reporting of suspicious activity; (vii) failure to adequately monitor Group Entities' banknote activity, (viii) inadequate monitoring of correspondent funds transfer activity; and (ix) inadequate collection and analysis of CDD information, including inadequate monitoring of PEPs.

Pursuant to the authority vested in him by the Federal Deposit Insurance Act, as amended, 12 U.S.C. § 1818(b), the Comptroller hereby ORDERS that:

ARTICLE II

COMPLIANCE COMMITTEE

(1) The Board shall maintain a Compliance Committee of at least three (3) directors, of which at least two (2) may not be employees or officers of the Bank or any of its subsidiaries or affiliates. In the event of a change of the membership, the name of any new member shall be submitted in writing to the Examiner-in-Charge of Large Bank Supervision at the Bank ("Examiner-in-Charge"). The Compliance Committee shall be responsible for monitoring and coordinating the Bank's adherence to the provisions of this Order. The Compliance Committee shall meet at least monthly and maintain minutes of its meetings.

(2) Within ninety (90) days of this Order, and quarterly thereafter, the Compliance Committee shall submit a written progress report to the Board setting forth in detail the actions taken to comply with each Article of this Order, and the results and status of those actions.

(3) The Board shall forward a copy of the Compliance Committee's report, with any additional comments by the Board, to the Deputy Comptroller for Large Bank Supervision ("Deputy Comptroller") and the Examiner-in-Charge within ten (10) days of receiving such report.

ARTICLE III

COMPREHENSIVE BSA/AML ACTION PLAN

(1) Within sixty (60) days of this Order, the Bank shall submit to the Deputy Comptroller and the Examiner-in-Charge a plan containing a complete description of the actions that are necessary and appropriate to achieve full compliance with Articles IV through XV of this Order ("Action Plan"). The Bank shall implement the Action Plan upon the Deputy Comptroller's issuance of a written determination of no supervisory objection. In the event the Deputy Comptroller asks the Bank to revise the plan, the Bank shall immediately make the requested revisions and resubmit the plan to the Deputy Comptroller and Examiner-in-Charge. Following implementation, the Bank shall not take any action that will cause a significant deviation from, or material change to the Action Plan unless and until the Bank has received a prior written determination of no supervisory objection from the Deputy Comptroller.

(2) The Board shall ensure that the Bank achieves and thereafter maintains compliance with this Order, including, without limitation, successful implementation of the Action Plan. The Board shall further ensure that, upon implementation of the Action Plan, the Bank achieves and maintains an effective BSA/AML compliance program, in accordance with

the BSA and its implementing regulations. In order to comply with these requirements, the Board shall:

(A) require the timely reporting by Bank management of such actions directed by the Board to be taken under this Order;

(B) follow-up on any non-compliance with such actions in a timely and appropriate manner; and

(C) require corrective action be taken in a timely manner for any non-compliance with such actions.

(3) The Action Plan must specify timelines for completion of each of the requirements of Articles IV through XV of this Order. The timelines in the Action Plan shall be consistent with any deadlines set forth in Articles IV through XV.

(4) Upon request by the Deputy Comptroller, the Bank shall modify the Action Plan to comply with any Matters Requiring Attention concerning BSA/AML matters, or citations of violations of law concerning these matters, which the OCC may issue to the Bank following the effective date of this Order.

(5) The Bank shall ensure that it has sufficient processes, personnel, and control systems to implement and adhere to this Order. The Action Plan must specify in detail budget outlays and staffing, including staff compensation, that are necessary to achieve and maintain full compliance with Articles IV through XV of this Order.

(6) Any independent consultant or auditor engaged by the Bank or the Board to assist in the assessment of the Action Plan or other compliance with this Order must have demonstrated and specialized experience with the BSA/AML matters that are the subject of the

engagement, and must not be subject to any conflict of interest affecting the consultant's or auditor's independence.

(7) Within ten (10) days of this Order, the Bank shall designate an officer to be responsible for coordinating and submitting to the OCC the written plans, reports, and other documents required to be submitted under the terms and conditions of this Order.

ARTICLE IV

MANAGEMENT

(1) Within fifteen (15) days of this Order, the Board shall submit to the Deputy Comptroller and the Examiner-in-Charge a plan to recruit, hire, appoint, and retain a qualified, permanent Regional Compliance Officer ("RCO") and a qualified, permanent BSA Officer. The plan shall include job descriptions, proposed salary ranges, and the qualifications sought by the Board.

(2) Prior to the appointment of any individual as the RCO and the BSA Officer, the Board shall submit the name and qualifications of the candidate, to the Deputy Comptroller and Examiner-in-Charge.

(3) The Deputy Comptroller shall have the power to disapprove the appointment of the proposed RCO candidate and the proposed BSA Officer candidate. However, the lack of disapproval of any such candidate shall not constitute an approval or endorsement of the proposed officer.

(4) The requirement to submit information and the prior disapproval provisions of this Article are based on the authority of 12 U.S.C. § 1818(b) and do not require the Comptroller or the Deputy Comptroller to complete his or her review and act on any such information or authority within ninety (90) days.

ARTICLE V

REVIEW OF BSA COMPLIANCE PROGRAM

(1) Within ten (10) days of this Order, the Bank shall retain an independent consultant, or continue an existing or newly revised relationship with an existing independent consultant, to conduct an independent review of the Bank's BSA/AML compliance program (the "BSA/AML Review") and prepare a written report of findings and recommendations (the "BSA/AML Report") within forty-five (45) days of this Order. The purpose of the BSA/AML Review shall be to conduct a comprehensive review of the following (including, as appropriate, systems and controls to ensure the effectiveness of policies and procedures):

- (A) the BSA Officer's level of authority and independence;
- (B) the numbers and the qualifications of staff that support the BSA Officer in performing his or her assigned responsibilities in maintaining effective compliance with the BSA and its implementing regulations;
- (C) the adequacy of the budget for maintaining effective compliance with the BSA and its implementing regulations;
- (D) the governance structure of the BSA program;
- (E) channels for informing the Board, or a committee thereof, and senior management, of compliance initiatives, identified compliance deficiencies, and corrective action taken;
- (F) succession plans for ensuring the program's continuity despite changes in management, staffing, or structure;
- (G) policies and procedures in all lines of business for identifying individuals who are PEPs and for monitoring the accounts associated with these individuals (As used in this Order, the term PEP shall include current or former senior foreign political figures, their

families, and their close associates, consistent with regulatory guidance including the Interagency Guidance issued in January 2001. The term PEP is not limited to the population of PEPs referenced in 31 C.F.R. § 103.175(r);

(H) policies and procedures in all lines of business for identifying customers who are high risk and for monitoring the accounts associated with these customers;

(I) policies and procedures for gathering CDD and EDD information when opening new accounts or when renewing or modifying existing accounts;

(J) policies and procedures for investigating and dispositioning transactions that are identified as unusual or suspicious;

(K) policies and procedures for completing and filing SARs on a timely basis; and

(L) the level of knowledge of the Bank's operational and supervisory personnel of the Bank's policies and procedures for identifying transactions that pose greater than normal risk for compliance with the BSA in order to determine the types of additional or enhanced training that should be conducted.

(2) The Bank shall submit to the Deputy Comptroller and Examiner-in-Charge a copy of the engagement letter or agreement establishing the terms of the engagement for the independent consultant. If the Deputy Comptroller recommends changes to the engagement letter or agreement, the Bank shall modify the engagement letter or agreement to incorporate those changes, or suggest alternative changes that are acceptable to the Deputy Comptroller.

(3) The supporting materials associated with the BSA/AML Review shall be made available to the OCC upon request.

(4) The Board shall address the findings from the BSA/AML Review in the Action Plan described in Article III of this Order.

ARTICLE VI

BSA COMPLIANCE PROGRAM

(1) Within ninety (90) days of this Order, the Board and executive management shall ensure that a BSA/AML program is in place which meets the following criteria:

- (A) has a BSA Officer with sufficient funding, authority, independence, and supporting staff to perform his or her assigned responsibilities and maintain effective compliance with the BSA and its implementing regulations;
- (B) has an effective governance structure to allow the BSA Officer to administer the program, with clear lines of responsibility beginning with senior management and including each line of business ("LOB") that is required to comply with the BSA;
- (C) has clearly defined channels for informing the Board, or a committee thereof, and senior management, of compliance initiatives, identified compliance deficiencies, and corrective action taken;
- (D) has well-defined succession plans for ensuring the program's continuity despite changes in management, staffing, or structure; and
- (E) identifies higher-risk banking operations (products, services, customers, entities, and geographic locations) and provides for periodic updates to the Bank's risk profile.

ARTICLE VII

MANAGEMENT INFORMATION

(1) Within ninety (90) days of this Order, the Board shall ensure that Bank management conducts a management information system ("MIS") assessment, and develops a plan that will enable management to more effectively identify, monitor, and manage the Bank's BSA risks on a timely basis. This plan should address any system limitations, provide for appropriate reporting, and consider the following:

(A) any trends in unusual or suspicious activity that have been identified and reported by the Bank, as well as the product lines, departments and branches in which suspicious activity has occurred;

(B) high risk accounts by line of business and type of business, countries of origin, location of the customers' businesses and residences, average dollar, and transaction volume of activity;

(C) information regarding any type of subpoena received by the Bank, any other law enforcement inquiry directed to the Bank, and any action taken by the Bank on the affected account;

(D) information regarding PEPs and foreign correspondent accounts;

(E) information regarding compliance with this Order; and

(F) any additional information deemed necessary or appropriate by the BSA Officer or the Bank.

(2) Upon completion, a copy of the MIS plan shall be submitted to the Deputy Comptroller and Examiner-in-Charge. If the Deputy Comptroller recommends changes to the plan, the Board shall incorporate those changes into the plan or suggest alternative changes that are acceptable to the Deputy Comptroller.

(3) Within one hundred twenty (120) days of this Order, the Board shall ensure that Bank management implements the MIS plan.

ARTICLE VIII

CDD AND EDD INFORMATION

(1) The Bank shall develop and implement appropriate policies and procedures for gathering customer due diligence ("CDD") and enhanced due diligence ("EDD") information when opening new accounts or when renewing or modifying existing accounts for customers, regardless of whether they are affiliates of the Bank. At a minimum, these policies and procedures must include:

(A) a methodology for assigning risk levels to the Bank's customer base that assesses appropriate factors such as type of customer, type of product or service, and geographic location, and specification of the CDD and EDD information the Bank must obtain, commensurate with these risk levels;

(B) identification of "offshore" correspondent accounts, as defined in 31 U.S.C. § 5318 and its implementing regulations, and appropriate EDD for these accounts;

(C) identification of PEPs, and appropriate EDD for PEPs; and

(D) periodic assessments by the BSA Officer or his/her designee of the effectiveness of the Bank's CDD, EDD, and monitoring activities, and timely corrective action of weaknesses identified in the assessments. These assessments and corrective actions shall, as appropriate, be incorporated into the Bank's BSA/AML risk assessment.

(2) The BSA Officer or his/her designee(s) shall periodically review account documentation for high-risk customers and their related accounts to determine whether the account activity is consistent with the customer's business and the stated purpose of the account.

(3) The Bank shall develop and maintain an MIS program that compiles CDD and EDD information. The program shall be commensurate with the Bank's BSA/AML risk, and shall provide appropriate business, compliance, and investigations staff throughout the Bank with automated ready access to CDD and EDD information.

(4) The Bank shall develop a risk-based plan to apply the requirements in its CDD and EDD policies and procedures to its existing customers, including Group Entities.

ARTICLE IX

MONITORING

(1) The Bank shall not limit suspicious activity alerts for wire transfers or other transactions based on lack of staff capacity or funding.

(2) The parameters implemented in the Bank's wire monitoring systems shall be determined by the BSA Officer or his or her designee. The parameters shall be based upon the risks presented by the originators, beneficiaries, and any counterparties to the transactions, rather than being limited to just the originators or just certain geographies. The Bank shall conduct and document validation (gap) testing to verify that the parameters it establishes for its wire monitoring systems are effective, comprehensive, and commensurate with the Bank's BSA/AML risk.

(3) Within sixty (60) days of this Order, the Bank shall submit revised policies and procedures for wire monitoring using its current wire monitoring system to the Deputy Comptroller and the Examiner-in-Charge. The policies and procedures shall include, without limitation, validation testing of parameters for automated wire monitoring. If the Deputy Comptroller recommends changes to the policies and procedures, the Bank shall incorporate those changes or suggest alternatives that are acceptable to the Deputy Comptroller.

(4) Within one hundred eighty (180) days of this Order, the Bank shall fully install, test, and activate a new wire transaction monitoring system. In implementing the new system, the Bank shall use a satisfactory approach to validating that the system is commensurate with the Bank's BSA/AML risk. No fewer than fourteen (14) days prior to the implementation of the new wire monitoring system, the Bank shall submit revised policies and procedures for wire monitoring using the new system to the Deputy Comptroller and the Examiner-in-Charge. The policies and procedures shall include, without limitation, validation testing of parameters for wire monitoring using the new system. If the Deputy Comptroller recommends changes to the policies and procedures, the Bank shall incorporate those changes or suggest alternatives that are acceptable to the Deputy Comptroller.

(5) For funds transfer systems other than wire transfers, the Bank shall ensure that these transfer systems are appropriately monitored and subject to AML controls commensurate with the Bank's BSA/AML risk. These funds transfers systems include, without limitation, ACH, international ACH, proprietary systems including transfers between the Bank and its affiliates, card systems, and mobile telephone applications.

ARTICLE X

SUSPICIOUS ACTIVITY REPORTING

(1) The Bank shall develop and maintain a written program of policies and procedures to ensure, pursuant to 12 C.F.R. § 21.11, the timely and appropriate review and disposition of suspicious activity alerts, and the timely filing of SARs.

(2) In reviewing alerts for purposes of determining whether to file a SAR, the Bank shall:

(A) assess and document relevant CDD and EDD information;

(B) not close an alert based on "positive internet information" unless this information establishes a bona fide business reason for the transaction(s) subject to the alert, and the Bank documents this information;

(C) assess and document that the Bank considered related transactions by the customer who is subject to the alert (including both related accounts and related products and services); and

(D) assess and document whether the Bank has previously filed or considered filing a SAR for the customer who is subject to the alert.

(3) The Bank shall complete its final disposition of each alert within a reasonable period after the generation of the alert. For each final disposition not completed within ninety (90) days after the generation of an alert, the Bank shall document its reason(s) for not completing the final disposition within this period and shall have a policy of increasing escalation and reporting of these aged alerts to ensure that they are being reviewed and dispositioned on a timely basis based upon the facts associated with the alert;

(4) The Bank shall retain an independent auditor to report on the Bank's compliance with this Article, including, without limitation, the timely and appropriate review and dispositioning of suspicious activity alerts, and the timely filing of SARs. Within ninety (90) days of this Order, and quarterly thereafter, the Bank shall submit to the Compliance Committee a written progress report from the independent auditor, and forward copies to the Deputy Comptroller and to the Examiner-in-Charge. The progress report shall set forth in detail the extent of the Bank's compliance with this Article.

ARTICLE XI

ACCOUNT/TRANSACTION ACTIVITY REVIEW ("LOOK-BACK")

(1) The Bank shall retain one or more independent consultants to conduct an independent review of account and transaction activity ("look-back") covering areas to be specified in writing by the Examiner-in-Charge.

(2) The purpose of the look-backs is to determine whether suspicious activity was timely identified by the Bank, and, if appropriate to do so, was then timely reported by the Bank in accordance with 12 C.F.R. § 21.11.

(3) The look-backs must be conducted by independent consultant(s) with expertise in the review of foreign correspondent account activity. The look-backs shall be risk-based, including the risks identified in the Bank's current risk assessment, and shall identify the sampling, software screening or analytical techniques the consultant(s) will use to identify transactions that are subject to review for suspicious activity.

(4) Upon completion of the look-back, the written findings shall be reported to the Board, with a copy to the Examiner-in-Charge. The Bank shall file SARs, in accordance with 12 C.F.R. § 21.11, for any previously unreported suspicious activity identified during this review.

(5) Based upon the results of the look-back, the OCC, at its sole discretion, may expand the scope of the independent review or require a longer look-back period. If an additional look-back is deemed appropriate by the OCC, the Bank shall complete the look-back in accordance with this Article.

ARTICLE XII

RESTRICTIONS ON GROWTH, NEW PRODUCTS

AND HIGH-RISK LINES OF BUSINESS

(1) The Bank has represented to the OCC that it is exiting the Global Banknotes line of business for non-domestic customers ("international bulk cash"). If, in the future, the Bank intends to re-enter the international bulk cash line of business, the Bank shall notify the Examiner-in-Charge of its plan in writing and obtain written supervisory non-objection prior to commencing re-entry.

(2) The written notification required pursuant to paragraph (1) of this Article must include the Bank's plan to ensure ongoing compliance with the BSA for the international bulk cash line of business, and the controls to be implemented for monitoring activity, which shall include:

(A) policies and procedures for identifying, investigating, and resolving transactions that are identified as unusual;

(B) policies and procedures for reporting suspicious activity;

(C) periodic evaluations of line of business and compliance personnel knowledge of and adherence to Bank policies and procedures for identifying transactions that pose greater than normal risk for compliance with the BSA in order to determine whether additional or enhanced training should be conducted;

(D) periodic evaluations of the sufficiency of staffing resources that support the line of business for the purpose of identifying and investigating unusual and/or suspicious activity;

(E) consideration and application of any regulatory guidance on bulk cash remediation, including any guidance provided in the current *FFIEC Bank Secrecy Act/Anti-Money Laundering Examination Manual*; and

(F) monitoring of bulk cash transactions with Group Entities to the extent the Bank monitors these transactions with customers who are not Group Entities.

(3) The Bank shall develop and maintain a procedure for introducing new products and services that ensures that these new activities are consistent with the Bank's BSA/AML compliance program. This procedure shall include an assessment of the BSA/AML risk posed by the new activities, and whether the compliance program has sufficient staffing and funding to effectively monitor the new activities.

ARTICLE XIII

REMOTE DEPOSIT CAPTURE

(1) The Bank shall establish controls, commensurate with its BSA/AML risk, over the usage of RDC by foreign correspondent customers, and the Bank's monitoring of RDC transactions. These controls shall include:

(A) policies and procedures consistent with the January 14, 2009 Interagency Guidance on "Risk Management of Remote Deposit Capture" published by the FFIEC (OCC 2009-4);

(B) policies and procedures for identifying, investigating, and resolving transactions that are identified as unusual;

(C) policies and procedures for reporting suspicious activity;

(D) periodic evaluations of line of business and compliance personnel knowledge of and adherence to Bank policies and procedures for identifying transactions that pose greater

than normal risk for compliance with the BSA and its implementing regulations, in order to determine whether additional or enhanced training should be conducted; and

(E) periodic evaluations of the sufficiency of staffing resources that support the line of business for the purpose of identifying and investigating unusual and/or suspicious activities.

(2) The Bank shall conduct automated monitoring of RDC transactions for suspicious activity, to the extent practicable.

(3) The Bank shall submit its policies and procedures for management of the BSA/AML risk of RDC to the Deputy Comptroller and Examiner-in-Charge. If the Deputy Comptroller recommends changes to the policies or procedures, the Bank shall incorporate those changes or suggest alternatives that are acceptable to the Deputy Comptroller.

ARTICLE XIV

BSA TRAINING

(1) Within ninety (90) days of this Order, the Bank shall develop, implement, and thereafter adhere to a comprehensive training program for all appropriate operational and supervisory personnel to ensure their awareness of their responsibility for compliance with the requirements of the Office of Foreign Assets Control ("OFAC") and the BSA, including the reporting requirements associated with SARs, pursuant to 12 C.F.R. Part 21, subpart B, regardless of the size of the relationship or type of customer involved.

(2) This comprehensive training program should include strategies for mandatory attendance, the frequency of training, procedures and timing for updating training programs and materials, and the method for delivering training.

(3) The Bank shall submit the training program to the Deputy Comptroller and Examiner-in-Charge. If the Deputy Comptroller recommends changes to the training program,

the Bank shall incorporate those changes or suggest alternatives that are acceptable to the Deputy Comptroller.

ARTICLE XV

BSA INDEPENDENT TESTING AND AUDIT

(1) The Bank shall develop and maintain an effective program to audit the Bank's BSA/AML compliance program ("Audit Program"). The Audit Program shall include, at a minimum:

- (A) a formal process to track and report upon Bank management's remediation efforts to strengthen the Bank's BSA/AML compliance program;
- (B) testing of the adequacy of internal controls designed to ensure compliance with the BSA and its implementing regulations;
- (C) a risk-based approach that focuses transactional testing on higher-risk accounts or geographic areas of concern; and
- (D) a requirement for prompt management response and follow-up to audit exceptions or other recommendations of the Bank's auditor.

(2) The Bank shall submit the Audit Program to the Deputy Comptroller and Examiner-in-Charge. If the Deputy Comptroller recommends changes to the Audit Program, the Bank shall incorporate those changes or suggest alternatives that are acceptable to the Deputy Comptroller.

ARTICLE XVI

CLOSING

(1) Although this Order requires the Bank to submit certain proposed actions and programs for the review or prior written determination of no supervisory objection by the Deputy Comptroller or the Examiner-in-Charge, the Board has the ultimate responsibility for proper and sound management of the Bank.

(2) If, at any time, the Comptroller deems it appropriate in fulfilling the responsibilities placed upon him by the several laws of the United States to undertake any action affecting the Bank, nothing in this Order shall in any way inhibit, estop, bar or otherwise prevent the Comptroller from so doing.

(3) This Order constitutes a settlement of the cease and desist proceeding against the Bank contemplated by the Comptroller, based on the violations described in the Comptroller's Findings set forth in Article I of this Order. Provided, however, that nothing in this Order shall prevent the Comptroller from instituting other enforcement actions against the Bank or any of its institution-affiliated parties, including, without limitation, assessments of civil money penalties, based on the findings set forth in this Order, or any other findings.

(4) This Order is and shall become effective upon its execution by the Comptroller, through his authorized representative whose hand appears below. The Order shall remain effective and enforceable, except to the extent that, and until such time as, any provisions of this Order shall have been amended, suspended, waived, or terminated in writing by the Comptroller.

(5) Any time limitations imposed by this Order shall begin to run from the effective date of this Order, as shown below, unless the Order specifies otherwise. The time limitations may be extended in writing by the Deputy Comptroller for good cause upon written application

by the Board. Any request to extend any time limitation shall include a statement setting forth in detail the special circumstances that prevent the Bank from complying with the time limitation, and shall be accompanied by relevant supporting documentation. The Deputy Comptroller's decision regarding the request is final and not subject to further review.

(6) This Order is intended to be, and shall be construed to be, a final order issued pursuant to 12 U.S.C. § 1818(b), and expressly does not form, and may not be construed to form, a contract binding the Comptroller or the United States. Without limiting the foregoing, nothing in this Order shall prevent any action against the Bank or its institution-affiliated parties by a bank regulatory agency, the United States Department of Justice, or any other law enforcement agency.

(7) The terms of this Order, including this paragraph, are not subject to amendment or modification by any extraneous expression, prior agreements, or prior arrangements between the parties, whether oral or written.

IT IS SO ORDERED, this 6th day of October, 2010.

/s/

Grace E. Dailey
Deputy Comptroller for Large Bank Supervision
Office of the Comptroller of the Currency

**UNITED STATES OF AMERICA
DEPARTMENT OF THE TREASURY
COMPTROLLER OF THE CURRENCY**

In the Matter of:)	
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)	AA-EC-10-98
HSBC Bank USA, N.A.)	
McLean, Virginia)	
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**STIPULATION AND CONSENT TO THE ISSUANCE
OF A CONSENT ORDER**

The Comptroller of the Currency of the United States of America (“Comptroller”) intends to impose a cease and desist order on HSBC Bank USA, N.A., McLean, Virginia (“Bank”) pursuant to 12 U.S.C. § 1818(b), for violations of 12 U.S.C. § 1818(s); the Bank Secrecy Act, 31 U.S.C. §§ 5311 *et seq.*, including 31 U.S.C. § 5318(i); and Bank Secrecy Act regulations 12 C.F.R. §§ 21.11 and 21.21, and 31 C.F.R. § 103.176.

The Bank, in the interest of compliance and cooperation, enters into this Stipulation and Consent to the Issuance of a Consent Order (“Stipulation”) and consents to the issuance of a Consent Order, dated October 6, 2010 (“Consent Order”);

In consideration of the above premises, the Comptroller, through his authorized representative, and the Bank, through its duly elected and acting Board of Directors, stipulate and agree to the following:

ARTICLE I

JURISDICTION

- (1) The Bank is a national banking association chartered and examined by the Comptroller pursuant to the National Bank Act of 1864, as amended, 12 U.S.C. § 1 *et seq.*
- (2) The Comptroller is “the appropriate Federal banking agency” regarding the Bank pursuant to 12 U.S.C. §§ 1813(q) and 1818(b).
- (3) The Bank is an “insured depository institution” within the meaning of 12 U.S.C. § 1818(b)(1).
- (4) As a result of this Consent Order:
 - (a) the Bank is an “eligible bank” pursuant to 12 C.F.R. § 5.3(g)(4) for the purposes of 12 C.F.R. Part 5 regarding rules, policies and procedures for corporate activities, unless otherwise informed in writing by the OCC.
 - (b) the Bank is not subject to the limitation of 12 C.F.R. § 5.51(c)(6)(ii) for the purposes of 12 C.F.R. § 5.51 requiring OCC approval of a change in directors and senior executive officers, unless otherwise informed in writing by the OCC.
 - (c) the Bank is not subject to the limitation on golden parachute and indemnification payments provided by 12 C.F.R. § 359.1(f)(1)(ii)(C) and 12 C.F.R. § 5.51(c)(6)(ii), unless otherwise informed in writing by the OCC.
 - (d) the Bank’s status as an “eligible bank” remains unchanged pursuant to 12 C.F.R. § 24.2(e)(4) for the purposes of 12 C.F.R. Part 24

regarding community and economic development, unless otherwise informed in writing by the OCC.

(5) The Consent Order shall not be construed to be a “written agreement, order, or capital directive” within the meaning of 12 C.F.R. § 6.4, unless the OCC informs the Bank otherwise in writing.

ARTICLE II

AGREEMENT

(1) The Bank, without admitting or denying any wrongdoing, consents and agrees to issuance of the Consent Order by the Comptroller.

(2) The Bank consents and agrees that the Consent Order shall (a) be deemed an “order issued with the consent of the depository institution” pursuant to 12 U.S.C. § 1818(h)(2), (b) become effective upon its execution by the Comptroller through his authorized representative, and (c) be fully enforceable by the Comptroller pursuant to 12 U.S.C. § 1818(i).

(3) Notwithstanding the absence of mutuality of obligation, or of consideration, or of a contract, the Comptroller may enforce any of the commitments or obligations herein undertaken by the Bank under his supervisory powers, including 12 U.S.C. § 1818(i), and not as a matter of contract law. The Bank expressly acknowledges that neither the Bank nor the Comptroller has any intention to enter into a contract.

(4) The Bank declares that no separate promise or inducement of any kind has been made by the Comptroller, or by his agents or employees, to cause or induce the Bank to consent to the issuance of the Consent Order and/or execute the Consent Order.

(5) The Bank expressly acknowledges that no officer or employee of the Comptroller has statutory or other authority to bind the United States, the United States Treasury Department,

the Comptroller, or any other federal bank regulatory agency or entity, or any officer or employee of any of those entities to a contract affecting the Comptroller's exercise of his supervisory responsibilities.

(6) The OCC releases and discharges the Bank from all potential liability for a cease and desist order that has been or might have been asserted by the OCC based on the violations described in the Comptroller's Findings set forth in Article I of the Consent Order, to the extent known to the OCC as of the effective date of the Consent Order. However, the violations alleged in Article I of the Consent Order may be utilized by the OCC in other future enforcement actions against the Bank or its institution-affiliated parties, including, without limitation, to assess civil money penalties or establish a pattern or practice of violations or the continuation of a pattern or practice of violations. This release shall not preclude or affect any right of the OCC to determine and ensure compliance with the terms and provisions of this Stipulation or the Consent Order.

(7) The terms and provisions of the Stipulation and the Consent Order shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Stipulation or the Consent Order, express or implied, shall give to any person or entity, other than the parties hereto, and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Stipulation or the Consent Order.

ARTICLE III

WAIVERS

- (1) The Bank, by consenting to this Stipulation, waives:
- (a) the issuance of a Notice of Charges pursuant to 12 U.S.C. § 1818(b);

- (b) any and all procedural rights available in connection with the issuance of the Consent Order;
- (c) all rights to a hearing and a final agency decision pursuant to 12 U.S.C. §§ 1818(b) and (h), 12 C.F.R. Part 19;
- (d) all rights to seek any type of administrative or judicial review of the Consent Order;
- (e) any and all claims for fees, costs or expenses against the Comptroller, or any of his agents or employees, related in any way to this enforcement matter or this Consent Order, whether arising under common law or under the terms of any statute, including, but not limited to, the Equal Access to Justice Act, 5 U.S.C. § 504 and 28 U.S.C. § 2412; and
- (f) any and all rights to challenge or contest the validity of the Consent Order.

ARTICLE IV

CLOSING

(1) The provisions of this Stipulation shall not inhibit, estop, bar, or otherwise prevent the Comptroller from taking any other action affecting the Bank if, at any time, it deems it appropriate to do so to fulfill the responsibilities placed upon it by the several laws of the United States of America.

(2) Nothing in this Stipulation shall preclude any proceedings brought by the Comptroller to enforce the terms of this Consent Order, and nothing in this Stipulation constitutes, nor shall the Bank contend that it constitutes, a waiver of any right, power, or

authority of any other representative of the United States or an agency thereof, including, without limitation, the United States Department of Justice, to bring other actions deemed appropriate.

(3) The terms of the Stipulation and the Consent Order are not subject to amendment or modification by any extraneous expression, prior agreements or prior arrangements between the parties, whether oral or written.

IN TESTIMONY WHEREOF, the undersigned, authorized by the Comptroller as his representative, has hereunto set her hand on behalf of the Comptroller.

/s/

Grace E. Dailey
Deputy Comptroller for Large Bank Supervision
Office of the Comptroller of the Currency

October 6, 2010

Date

IN TESTIMONY WHEREOF, the undersigned, as the duly elected and acting Board of Directors of the Bank, have hereunto set their hands on behalf of the Bank.

/s/
Niall S. K. Booker

9/24/10
Date

/s/
William R. P. Dalton

9/24/10
Date

/s/
Anthea Disney

9/24/10
Date

/s/
Irene M. Dorner

9/24/10
Date

/s/
Robert K. Herdman

9/24/10
Date

/s/
Louis Hernandez, Jr.

9/24/10
Date

/s/
Richard A. Jalkut

9/24/10
Date