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**Written Testimony for Senate Permanent Subcommittee on Investigations**  
**July 17, 2012**

Chairman Levin, Ranking Member Coburn, and Members of the Subcommittee:

My name is Michael Gallagher and I reside in Lincroft, New Jersey. From 2001 until last year I was an Executive Vice President at HSBC Bank USA, N.A. (“HBUS”) responsible for Payments and Cash Management (“PCM”), North America. On November 21, 2011, I was subject to a reduction in force at the bank.

Anti-money laundering, terrorism financing, and global access to the U.S. financial system are issues of critical importance to the banking industry and to national security. I have prepared this written statement in order to address certain areas of inquiry outlined in the Subcommittee’s correspondence dated June 29, 2012, and I will be pleased to answer any additional questions at the hearing that the Subcommittee might have.

During my tenure at HBUS, PCM developed and marketed payments and cash management services to corporate and middle market clients as well as financial institutions, including HSBC affiliated banks. At the time of my departure, there were five regional heads of PCM, including me, each of whom reported to the global head of PCM. I generally had four teams within PCM that reported to me: sales, product management, client services, and central services.

In addition, there were two periods of time during my tenure at HBUS when Wholesale Payments Operations (the team responsible for wire transfers) reported to me: approximately 1998 to 2001 and approximately 2004 to 2007. Within its operations function, HBUS had a payments filter that was programmed to detect and flag transactions from sanctioned countries,

among other things. The payments processing team within operations would review each of the transactions stopped by the filter. To the best of my knowledge, if the transaction required further evaluation, it would be escalated to the Compliance department.

In regard to the Subcommittee's interest in U.S. dollar transactions involving Iran, I recall that in approximately May 2001, I was informed by the head of Wholesale Payments Operations of a business proposal under consideration by HSBC Bank plc to provide U.S. dollar clearing services to Bank Melli, an Iranian bank. I responded to her, copying my manager, the head of Corporate Banking, stating that I was not comfortable with the bank's pursuit of such a business arrangement. I was concerned with the regulatory, reputational, and operational risk associated with this business proposal, and particularly the fact that Bank Melli was unwilling to identify the main beneficiaries of the payments at issue. The head of Wholesale Payments Operations then forwarded my concern to the Compliance department. I was not privy to the outcome of the discussions regarding the Bank Melli proposal.

I also understand that the Subcommittee is interested in the Global Banknotes business. In approximately early 2007, the Head of Global Banking and Markets asked if I would take on managerial oversight of Global Banknotes and serve as someone to whom Christopher Lok, the Head of Global Banknotes, could report. HSBC's Banknotes division bought, sold, and shipped banknotes around the world on behalf of its clients. HSBC had several banknotes vaults, including vaults in New York, London, Frankfurt, Tokyo, Singapore, and Hong Kong.

Finally, I understand that the Subcommittee is interested in HBUS' anti-money laundering, or AML, efforts. During my tenure at HBUS, although the Compliance department was primarily responsible for HSBC's AML efforts, my team and I took compliance matters very seriously. PCM assisted the Compliance department, as well as relationship managers, with

regard to AML and related compliance efforts. In instances when PCM became aware of negative information regarding a client, PCM worked closely with the Compliance department to ensure that it received the information it needed. PCM also made resources available to the relationship managers and the Compliance department to assist in any way that we could.

In summary, I would like to thank the Chairman and Subcommittee for allowing me to speak at the hearing on these critical matters. HSBC, and the banking industry as a whole, have learned a lot over the past decade or so. I believe that HSBC's experience can add value to understanding more broadly the risks and opportunities for enhanced safety in this industry. During my tenure at HSBC, there were steps taken to tighten anti-money laundering controls. But, with hindsight, it is clear that we did not always fully understand the risks of our business, and that we could have done much more, and done it more quickly. I appreciate the opportunity to provide this information to the Subcommittee. I am prepared to answer any additional questions that the Subcommittee may have during the hearing.