

Stuart Levey
Chief Legal Officer
HSBC Holdings plc
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I. Introduction

Good afternoon Chairman Levin, Ranking Member Coburn, and members of the Subcommittee. My name is Stuart Levey and I joined HSBC Holdings plc (or “Group”) as its global Chief Legal Officer in January of this year. I am pleased to appear here, at the Subcommittee’s request, to participate in today’s hearing on combating money laundering. This Subcommittee has played a vital role in promoting sound policies and practices in the AML area. That work has made the global financial system stronger and increased the tools available to law enforcement in the campaign against those who would misuse the global financial system for money laundering, drug trafficking, terrorism, tax evasion, or other illicit purposes.

We have worked closely with the staff during the course of the investigation and cooperated as completely as possible to help provide a full picture of what happened. This process has highlighted some unacceptable shortcomings that HSBC deeply regrets. We have learned from this experience and are taking steps to change.

Irene Dorner, our U.S. CEO, has spoken about the work we have done and continue to do to improve our AML compliance controls in the United States. However, we recognize that it is not enough to fix the specific issues that the Subcommittee has focused on; instead, we must implement a global strategy to tackle the root causes of our identified deficiencies. That is what we have begun to do and that is what I would like to talk about today.

II. Lessons Learned

We have learned some difficult lessons from our experiences in the U.S. and in Mexico. We have learned that our decentralized management model focused on country heads made it difficult to ensure that HSBC standards were being implemented consistently. While our old model served us well historically, it does not work in an interconnected world where transactions cross borders instantaneously and where weaknesses in one jurisdiction can be quickly exported to others. New acquisitions expanded HSBC faster than our infrastructure and controls could handle, especially given increasing regulatory expectations. In some instances, acquisitions were not sufficiently integrated into our operations and not brought up to HSBC standards quickly enough. We have learned, therefore, that HSBC affiliates could not assume that other HSBC affiliates with whom they did business were adhering to adequate standards. We have learned that our approach to compliance – and AML in particular – was not adequate to address the risks we face as a global institution. And we have learned that we did not share information effectively enough across our affiliates, with serious consequences.

III. How We Are Reforming HSBC To Address These Shortcomings

At the beginning of 2011, there was a transition at HSBC to our new CEO, Stuart Gulliver, and our new Chairman, Douglas Flint. The new leadership team recognized that immediate action was required and set out a strategy to make changes to the way HSBC operates around the world. Over the past eighteen months we have taken concrete steps to address each of the deficiencies I have described. The work we have undertaken is ambitious and complicated given our size and our global footprint, but we all recognize that it must be done.

A. Reorganization of HSBC's Structure and Business

1. Global Businesses and Functions

In early 2011, our new CEO, Stuart Gulliver, articulated the firm's new strategy. The decentralized system where country heads were dominant on all matters within that country would be eliminated and replaced. Instead, in order to make the firm more cohesive and better connected, we reorganized HSBC into four Global Businesses and ten Global Functions in addition to our pre-existing regional structure. We gave the heads of each business and function the authority over all personnel in their respective organizations all over the world, thus creating the ability to manage their business or function on a global basis, making it easier to implement consistent policies, standards, and processes. The Global Businesses are Global Banking & Markets ("GBM"), Commercial Banking ("CMB"), Private Banking ("GPB"), and Retail Banking and Wealth Management ("RBWM"). The Global Functions include Legal, Audit, and Risk and Compliance. The heads of each of the businesses and functions, together with the heads of each of the regions, are all members of our risk management committee, which is part of the Group Management Board. This group meets eleven times a year and each meeting is comprehensive, often lasting an entire day. What that means is that the most senior people responsible for managing HSBC globally sit around a table every month, look at our risks, and make decisions.

Better global integration makes us better situated today to manage our risk on a global basis, better able to see where risk in one part of HSBC may impact another part, and better able for the first time to ensure that consistent compliance standards and practices are implemented across all of our affiliates.

2. Simplifying Our Business

In May 2011, we announced a second key component of our new strategy. We have put the entire business through five economic filters: international connectivity, economic development, profitability, cost efficiency, and liquidity. Businesses that do not fit are sold; countries that do not fit are exited. We are no longer trying to be everywhere and trying to provide all services to all customers. We have focused on selling or exiting non-core businesses, which added undue complexity and raised control risks. (An early example of this would be the Mexican U.S. dollar cash handling business that was terminated by our former CEO Michael Geoghegan in 2008. Eventually, the global Banknotes business was closed entirely.) Application of these filters was designed to make the firm more manageable, reduce risk, and focus on our strengths as an internationally connected bank. As a result, over the past 18 months, we have sold or exited 31 businesses and are withdrawing from 9 countries.

We believe that this new structure and focus allows us to more effectively manage HSBC on a global basis and puts us in a better position to both detect and address compliance risk globally.

B. Increased Focus On Compliance

Historically, Group Compliance served what was primarily an advisory function. Compliance in each country reported to the country CEO and implementation of HSBC standards was the responsibility of each local Compliance group. This led to inconsistency and in some cases confusion about ownership and escalation responsibility. The top Group Compliance job at HSBC, which David Bagley has held for the past ten years, is undeniably difficult and our historical organizational structure meant that we did not invest in Group Compliance or empower it the way we should have. This has changed.

1. Strengthening Compliance

We have elevated and strengthened the role of Group Compliance so that it is now a key control function, not just an advisory function. The Head of Group Compliance now has authority over the nearly 3,500 HSBC compliance officers worldwide. Group Compliance is responsible for resourcing decisions, performance reviews, objectives, strategy, budget, and accountability within all the Regional and Global Business Compliance functions, as well as compensation for all Compliance officers globally. Under the new structure, Group Compliance is empowered to set standards across the organization and now has the necessary authority to reach down into affiliates and ensure that those standards are being met.

We have significantly increased the resources devoted to Compliance across the firm. We have created a new independent Assurance team within Compliance that reviews the effectiveness of the Regional and Global Business Compliance functions, reports compliance issues for remediation, and tracks progress. We now have the tools to analyze and assess our affiliates, looking for compliance risk and problems, and to raise those up to senior members of Group Compliance and Group Risk, who are now responsible for ensuring problems are resolved. This gives us a transparency and accountability that was lacking before.

In addition to shoring up our Compliance function, we have also enhanced the authority of our Global Risk function, so that it too is a strong control function that works in tandem with Compliance. Our Chief Risk Officer now has a broader mandate to control all types of risk globally and has oversight over every Risk officer in every affiliate. The Chief Risk Officer chairs the Risk Management Committee meetings and attends the full Group Holdings Board meetings, at which risk and compliance is a substantial focus.

2. Values Program

In addition to adding resources and elevating the stature of Group Compliance, in 2011 our new senior leadership introduced a values program that seeks to define the way everyone at HSBC should act. Under this values program, before any consideration of the business scorecard, our top executives are judged on being open, connected, and on their commitment to acting with integrity. In addition, all managers and senior executives are accountable for ensuring that business decisions and activities within their area are aligned to our values and business principles. This includes reviewing all products, services, policies, and practices to ensure that the values are embedded into our “business as usual” operations. Employees also are expected to understand the impact of the values and business principles on their day-to-day activities and, as part of performance reviews, employees are now assessed on their value-related behaviors. The compensation of all HSBC employees – from the most senior to the most junior – will be impacted if behaviors do not meet our expectations.

So far, 332 senior managers have attended a 2-day workshop on HSBC values; 3,000 executives have attended leadership training, and 43,500 employees have attended general training, both of which included sessions on HSBC values.

3. New Chief Legal Officer

It was in the context of these reforms that HSBC’s leadership approached me about taking on a newly-created position of Chief Legal Officer. I had previously served nearly seven years as the Under Secretary of Treasury for Terrorism and Financial Intelligence under Presidents Bush and Obama. In our conversations, the Chairman of the Board and the new CEO were candid with me about the problems HSBC faced, the reforms they wanted me to help them implement, and the empowerment that I would need and have. I saw the opportunity as an

important challenge. HSBC is a great institution with a global footprint and tremendous scale. Helping HSBC successfully implement the kinds of reforms I am describing today will make a significant difference in promoting the overall integrity of the financial system.

C. Designing and Implementing New Global Standards

In April of this year, Stuart Gulliver issued a Group Circular Letter (“GCL”) – which is the way our CEO communicates important policy changes throughout the Bank – entitled “HSBC Global Standards.” This directive states that in order to preserve and enhance our reputation, we must lead our industry in formulating and implementing global standards and controls to ensure that our conduct matches our values. The GCL sets forth some key principles. These are, among other things, that HSBC must:

- Adopt and enforce adherence to a single standard globally that is determined by the highest standard we must apply anywhere. Often, this will mean adhering globally to U.S. regulatory standards, but to the extent another jurisdiction requires higher standards, then that jurisdiction’s requirements must shape our global standard;
- Maximize the sharing of information for risk management purposes among Group companies and among Global Businesses and Functions;
- Apply a globally consistent approach to knowing and retaining our customers. When we conclude that any customer or potential customer poses an unacceptable reputational risk (or otherwise does not meet our standards), we should exit or avoid the relationship globally.

The GCL also established a new Steering Committee on Global Standards, co-chaired by myself and our Group Chief Risk Officer, which is responsible for developing and overseeing the implementation of the new standards. Irene Dorner is also a member of the Committee,

because we recognize that often the highest standards will be U.S. standards and Irene's experience and expertise in that area will be invaluable. This will mean that rather than the U.S. bank being faced with the challenges of absorbing problems and deficiencies from abroad, more often than not it will be high U.S. standards that we will be exporting globally. By implementing this highest common denominator approach across HSBC we are requiring that all our affiliates be held to consistent high standards. Our new structure gives Group Compliance and our other control functions the ability to hold people accountable for following those standards in a way that was not possible before.

Our Global Standards Steering Committee has already taken action on a number of issues, and we have purposefully set out to address several of the problems the Subcommittee has highlighted through its investigation.

1. Information Sharing

One of the first acts of the Steering Committee was to enact a new global standard designed to maximize the sharing of information, to the extent permitted by law, across all HSBC affiliates and all Global Businesses and Functions for risk management purposes. Key compliance-related information will now be shared horizontally with all Regional and Global Business Compliance Heads, including monthly reports detailing compliance issues in a region or business line. The reports from the new Assurance team's on-the-ground reviews of specific Regional Compliance Functions will also be shared horizontally. And importantly, any material or systematic AML control weaknesses at one affiliate are to be shared with all affiliates. Similar information sharing protocols have been established for affiliate audit reports. We have seen what happens when information is not shared effectively across our institution, and we

continue to look for additional opportunities to increase the flow of information throughout the firm.

One difficult reality that global institutions like HSBC have to grapple with is that we face certain restrictions on sharing information across borders because we must adhere to the law wherever we operate. The Subcommittee is well aware of this issue and the challenges we face in this area. But at the same time we have recognized that we can significantly improve the flow of information from what occurred in the past and thereby improve our controls.

The Steering Committee is also overseeing the establishment of a global Financial Intelligence Unit (“FIU”) at the Group level to ensure we are able to analyze and act on information submitted from around the firm and, subject to any legal restrictions, to share information with relevant affiliates that are impacted.

2. Affiliate Due Diligence

Another early action of the Steering Committee was to globalize the practice of conducting appropriate due diligence on all of our HSBC affiliates. The risk of not doing so has been clearly illustrated by this investigation. While affiliate due diligence is only required by law in a few countries (and is not required by the Financial Action Task Force), we believe that best practice mandates that HSBC affiliates should know *more* about each other than they do about third-party customers, not less. This means that all HSBC affiliates are now required to complete due diligence on any other HSBC affiliate with which they have a correspondent banking relationship.

3. Global Risk Filter

In addition to the five business filters discussed above, the Steering Committee has decided to add a sixth filter to govern HSBC’s activities in high risk jurisdictions. We are

implementing a new global risk filter that will standardize which countries are viewed as high risk by adopting the U.S. country risk ratings on a firm-wide basis. The risk filter will help us determine what business we are comfortable doing in high risk places and what business we must avoid. We *want* to be in fewer places, with fewer clients, and with less risk across the board. Because the risk filter will be applied firm-wide, it will also bring consistency and enhance our ability to understand and manage our risk across affiliates. We do not view this as sacrificing business for compliance purposes. There is no conflict between our business objectives and compliance objectives in the long run or when viewed from a global firm-wide perspective.

4. Global Sanctions Policy

The Steering Committee has also moved to adopt a global sanctions policy, based on a review of HSBC's current payment screening policies and procedures. We have identified a number of enhancements that can be made to that process, including additions to the sanctions lists used for both "real time" and "near time" payments screening. Among other things, this will mean that we will be screening for all illicit actors designated by OFAC in all jurisdictions, in all currencies.

IV. Making Reforms Sustainable

We understand that we also need a genuine commitment from the highest levels of the organization to institutionalize the reforms and foster a culture of compliance. That is being accomplished in part by formalizing the reforms I have described and embedding them in a governance structure.

In the end, sustainability of these reforms depends critically on the commitment of HSBC's top leadership. The tone at the top of HSBC is, in my view, remarkably strong. Our

Board and senior leadership are committed to seeing these reforms through, and we understand that this is something that absolutely must be done for the long-term success of our bank.

V. Protecting the Integrity of the Financial System

The reforms I have laid out above, when fully implemented, will have a positive impact on the financial system. But beyond that, there are opportunities to improve collaboration both among financial institutions and between the financial sector and the government that would help protect the financial system from misuse. One lesson I learned during my Treasury service is that, in almost all cases, the private sector and governments share the same goals when it comes to preserving the integrity of the financial system. This is a difficult problem, and we are up against groups of people who are adept at evading controls. My experience at Treasury was that banks are eager to receive the type of information about illicit conduct that the government is able to provide and to engage with the government about mitigating that risk, and this is certainly true with respect to HSBC. HSBC wants to play a constructive role in this effort, and there are clearly opportunities for increased information sharing and collaboration.

This Subcommittee helped create a valuable tool in the PATRIOT Act when it gave the industry 314(b), which permits financial institutions to share information with one another in order to identify and report to the federal government activities that may involve money laundering or terrorist financing. Increased sharing of such information would enable financial institutions – and law enforcement – to better connect the dots, identify suspicious patterns of activity, and take appropriate action. Unfortunately, this provision has not been used as robustly as it might be. I know this Subcommittee has also been looking for ways to improve the effectiveness of this provision.

Another potential area for improvement is the sharing of information between financial institutions and government agencies. Law enforcement agencies and the intelligence community collect and analyze significant amounts of information regarding illicit activity, which often enables the government to identify the names of individuals, companies, or other entities that facilitate or tolerate illicit activity. This information would be extremely valuable to financial institutions, and to the extent more of this information could be shared, that is something we at HSBC, and I am sure others in the industry, would support and encourage.

Along these lines, it would be helpful to have more access to beneficial ownership information for companies. Provisions of the Levin-Grassley Incorporation Transparency and Law Enforcement Assistance Act would be a step in the right direction, particularly if beneficial ownership information were to be made more readily available not only to law enforcement but to financial institutions as well. The better banks know their customers, the more secure the entire system is from misuse.

VI. Conclusion

You have heard a lot today about what happened in the past and the reasons for it. We are in the process of applying the lessons learned from our experience throughout our institution. We have a long way to go on this journey, but I believe we are on the right path. We have work to do to regain the trust of our regulators, our customers, and other stakeholders. But I do want to say very clearly that the reforms we are undertaking reflect a real commitment to HSBC's true values. HSBC is a bank that has a long and proud heritage. Over its 147 year history HSBC has been an upstanding corporate citizen all over the world and has played a vital role in integrating emerging markets into the global economy. This is a bank that has helped thousands of individuals and small businesses realize their dreams.

This experience has been a very painful one for the vast majority of the HSBC family who have spent their careers at the bank doing the right thing every day. I know I speak for all of HSBC senior management when I say that we are committed to doing what needs to be done. I appreciate the opportunity to speak to you today and I look forward to answering your questions. Finally, Mr. Chairman, I intend to answer the Subcommittee's questions as candidly and completely as I can today. However, as has been previously discussed with the Subcommittee's staff, there are certain potential questions – or parts of questions – that I may not be able to answer because of either legal obligations attendant to my prior position in Government or ethical obligations associated with my present position as counsel for HSBC. I hope that none of today's questions will implicate either of these areas where I cannot respond, but if they do I will let you know.