

**Testimony of Chiu Hon “Christopher” Lok**  
**Before the United States Senate**  
**Permanent Subcommittee on Investigations**  
**July 17, 2012**

Chairman Levin, Ranking Member Coburn, and members of the Subcommittee, I appreciate the opportunity to be here today. My name is Christopher Lok, and from 2001 until 2010 I served as the global head of the Banknotes business at HSBC.

In my statement today, I will cover three topics. First, I will provide my background information. Second, I will provide an overview of the Banknotes business at HSBC. And third, I will address some of the specific problems and issues that I believe the Subcommittee is interested in. For me, it is painful and embarrassing to talk about the areas where, in hindsight, we fell short. At the same time, it is valuable to do so in order to find constructive solutions and so that others don't make the same mistakes going forward.

I was born and raised in Hong Kong. In 1981, I started working in the Banknotes business, and that is what I did for 29 years. During the entire time from 1981 through 2010, I worked for HSBC or a predecessor institution. For most of my career I was based in Asia, but I was privileged to have lived and worked in New York for a brief period in the 1990s and again from 2001 until 2010. Even though I am not a U.S. citizen, I had a wonderful experience living and working in this country and I have a great admiration and affection for the United States.

I'd like to provide a brief overview of the Banknotes business. In essence, the business is about the buying and selling of physical currency at the wholesale level. Our clients were banks and other financial institutions all around the world. We employed about 275 people, including

traders, back office staff, and people who focused on operations and logistics. We dealt with approximately 800 customers, in over 100 countries, and we transacted in about 75 different currencies. These customers have natural demand for and supply of currency banknotes, driven by various economic activities. To them, HSBC was a safe and reliable counterparty and I believe that we provided them with a valuable service.

I understand that the Subcommittee is focused on some of the compliance challenges that we faced in the Banknotes business.

Let me start by emphasizing that compliance was a critical part of the HSBC Banknotes business. Over a period of years, there were some occasions when I communicated with my colleagues in compliance in a manner that was unnecessarily aggressive and harsh. These communications were unprofessional, and I deeply regret them. In reality, the business line and compliance shared the same objective – to avoid the bank being used by inappropriate people for improper transactions. Despite my overly critical emails, I believe Banknotes business and compliance people actually had a good working partnership. While I didn't always communicate this, I had great respect for my colleagues in compliance and I valued their work.

With respect to Banknotes transactions with customers in Mexico, up until December 2008 I was under the impression that HSBC's Mexican affiliate, HBMX, was operating under HSBC group standards. In December 2008, HBMX announced that it would no longer be accepting U.S. currency in Mexico. I was surprised by this announcement, and I tried to find out what was the reason behind it. It was not until early 2009 that I learned, as a result of my own inquiries, that HBMX had gotten into problems because their anti-money-laundering controls were seriously compromised. I was surprised and concerned about this news. I was not

previously aware of the AML problems at HBMX. If we had known of these problems, I am certain we in the Banknotes business would have done things differently.

As time went by, some questions were raised about the Banknotes business in Mexico. In retrospect, we did not adequately appreciate the concerns being raised about the business environment in Mexico. While we did our best to deal with these inquiries, I am sorry to say that I did not understand what later became apparent. With the benefit of hindsight it is now clear that we did not perceive the extent of the anti-money-laundering deficiencies and the risks present in Mexico.

Thank you very much.