Review: HSBC

Background
HSBC is one of the largest financial institutions in the world, with over $2.5 trillion in assets, 89 million customers, 300,000 employees, and 2011 profits of nearly $22 billion. HSBC, whose initials originally stood for Hong Kong Shanghai Banking Corporation, now has operations in over 80 countries, with hundreds of affiliates spanning the globe. Its parent corporation, HSBC Holdings plc, called “HSBC Group,” is headquartered in London, and its Chief Executive Officer is located in Hong Kong.

Its key U.S. affiliate is HSBC Bank USA N.A. (HBUS). HBUS operates more than 470 bank branches throughout the United States, manages assets totalling about $200 billion, and serves around 3.8 million customers. It holds a national bank charter, and its primary regulator is the U.S. Office of the Comptroller of the Currency (OCC), which is part of the U.S. Treasury Department. HBUS is headquartered in McLean, Virginia, but has its principal office in New York City. HSBC acquired its U.S. presence by purchasing several U.S. financial institutions, including Marine Midland Bank and Republic National Bank of New York.

HSBC: Money Laundering
In both 2003 and 2010, U.S. regulators ordered HSBC to strengthen its anti-money laundering practices. In October 2010, the United States OCC issued a Cease and Desist Order requiring HSBC to strengthen multiple aspects of its Anti-Money Laundering (AML) program. The identified problems included a once massive backlog of over 17,000 alerts identifying suspicious activity, failure to file timely suspicious activity reports with U.S. law enforcement, failure to conduct any due diligence to assess risks to HSBC affiliates before opening correspondent accounts for them, a three-year failure HBUS from mid-2006 to mid-2009 to conduct any AML of $15 billion in bulk cash transactions from those same HSBC affiliates, failure to monitor $60 trillion in annual wire transfers by customers in countries rated lower risk by HBUS, and inadequate and unqualified AML staffing, resources, and leadership. It was noted that HSBC fully cooperated with the Senate investigation.

In December 2012, HSBC agreed to pay $1.9 billion fine under a Deferred Prosecution Agreement (DPA) for violating U.S. laws designed to protect the U.S. financial system. In addition, HSBC’s US banking license was put on probation for five years. HSBC had allegedly laundered at least $881 million in drugs proceeds through the U.S. financial system for international cartels, as well as processing an additional $660 million for banks in US sanctioned countries. According to a US Senate report, "The U.S. bank subsidiary failed to monitor more than $670 billion in wire transfers and more than $9.4 billion in purchases of physical dollars from its Mexico unit.”

The US Senate investigation concluded that HSBC had been responsible for the following:
- Longstanding Severe AML Deficiencies. HBUS operated its correspondent accounts for foreign financial institutions with longstanding, severe AML deficiencies, including a dysfunctional AML monitoring system for account and wire transfer activity, an unacceptable backlog of 17,000 unreviewed alerts, insufficient staffing, inappropriate country and client risk assessments, and late or missing Suspicious Activity Reports, exposing the United States to money laundering, drug trafficking, and terrorist financing risks.
- Taking on High Risk Affiliates. HBUS failed to assess the AML risks associated with HSBC affiliates before opening correspondent accounts for them, failed to identify high risk affiliates, and failed for years to treat HBMX as a high risk accountholder.
- Circumventing US Prohibitions. For years in connection with Iranian U-turn transactions, HSBC allowed two non-U.S. affiliates to engage in conduct to avoid alerting the US governments. While HBUS insisted that HSBC affiliates provide fully transparent transaction information, when it
obtained evidence that some affiliates were acting to against US regulations, HBUS failed to take decisive action to confront those affiliates and put an end to conduct which even some within the bank viewed as deceptive.

- Disregarding Terrorist Links. HBUS provided U.S. correspondent accounts to some foreign banks despite evidence of links to terrorist financing.
- Clearing Suspicious Bulk Travellers Cheques. In less than four years, HBUS cleared over $290 million in sequentially numbered, illegibly signed, bulk U.S. dollar travellers cheques for Hokuriku Bank, which could not explain why its clients were regularly depositing up to $500,000 or more per day in U.S. dollar travellers cheques obtained in Russia into Japanese accounts, supposedly for selling used cars; even after learning of Hokuriku’s poor AML controls, HBUS continued to do business with the bank.
- Offering Bearer Share Accounts. Over the course of a decade, HBUS opened over 2,000 high risk bearer share corporate accounts with inadequate AML controls.
- Allowing AML Problems to Fester. The OCC allowed HBUS’ AML deficiencies to fester for years, in part due to treating HBUS’ AML problems as consumer compliance matters rather than safety and soundness problems, failing to make timely use of formal and informal enforcement actions to compel AML reforms at the bank, and focusing on AML issues in specific HBUS banking units without also viewing them on an institution-wide basis.

As part of the DPA, HSBC acknowledged that for years it had ignored warning signs that drug cartels in Mexico were using its branches to launder millions of dollars, and also acknowledged that HSBC’s international staff had stripped identifying information on transactions made through the United States from countries facing economic sanctions such as Iran and Sudan.

In early February 2013, appearing before UK’s Parliamentary Banking Standards Commission, CEO Stuart Gulliver acknowledged that the structure of the bank had been “not fit for purpose.” He also stated, “Matters that should have been shared and escalated were not shared and escalated.” HSBC has also been accused of laundering money for terrorist groups.