



**HSBC HOLDINGS PLC**

**FINANCIAL SYSTEM VULNERABILITIES COMMITTEE**

**Terms of Reference**

**Membership**

The Committee shall comprise:

- (i) not less than two non-executive Directors;
- (ii) a senior representative of HSBC Bank USA, National Association (“HBUS”) or HSBC North America Holdings, Inc. (“HNAH”) who:
  - (a) has expertise in anti-money laundering (“AML”), sanctions, terrorist financing and proliferation financing matters; and
  - (b) is normally resident in the United States;
- (iii) two external experts, one of whom has US expertise and one of whom has UK expertise on AML, sanctions, terrorist financing and proliferation financing matters.

The Chairman of the Committee shall be appointed by the Board from among the non-executive Directors.

The Board may from time to time appoint additional members to the Committee from among the Directors and, subject to the Company’s Articles of Association, such other persons as the Board may from time to time determine. Prior consent of the Financial Services Authority (“FSA”) is required before any appointment is made to the Committee.

The Committee may invite any director or executive of any Group company or other person to attend any meeting(s) of the Committee as it may from time to time consider desirable to assist the Committee in the attainment of its objective. The Group money laundering reporting officer shall also attend meetings of the Committee.

**Meetings and Quorum**

The Committee shall meet with such frequency and at such times as it may determine. It is expected that the Committee shall meet at least four times each year.

The quorum for meetings shall be two Directors.

## Objective

The Committee shall be accountable to the Board and shall oversee matters relating to anti-money laundering (“AML”), sanctions, terrorist financing and proliferation financing. The Committee shall also provide governance, oversight and policy guidance over HSBC’s framework of controls and procedures designed to identify areas where HSBC may become exposed, and through that exposure the financial system more broadly may be exposed, to financial crime or system abuse. The Committee shall use its knowledge and experience to help place HSBC at the forefront of thought leadership in this area and shall oversee and report to the Board on management’s implementation of actions necessary to build assurance in these areas.

## Responsibilities of the Committee

Without limiting the generality of the Committee’s objective, the Committee shall, to the extent such matters are not dealt with by another committee of the Board, have the following responsibilities, powers, authorities and discretion:

1. To establish, implement, maintain and review policies and procedures applicable to the Company and its subsidiary undertakings (as defined in regulation 15(3) of the Money Laundering Regulations 2007) (together the “HSBC Group”) who are not subject to requirements under UK law concerning UK AML, sanctions, terrorist financing and proliferation financing requirements (“UK requirements”), sufficient to provide a level of protection concerning AML, sanctions, terrorist financing and proliferation financing equivalent to that provided under UK requirements:
  - to the extent that the Company is able to do so with respect to any subsidiary undertaking having regard to the level of shares and/or voting power held by the Company, directly or indirectly, in respect of any subsidiary undertaking;
  - other than to the extent such policies and procedures are not permitted under the law of the jurisdiction in which any subsidiary undertaking or branch is incorporated, located or has operations.
2. To establish, implement, maintain and review policies and procedures to ensure compliance with the UK requirements by the Company and other members of the HSBC Group who are subject to UK requirements.
3. To establish, implement, maintain and review adequate policies and procedures to ensure compliance by the Company and other members of the HSBC Group with the requirements of the deferred prosecution agreements, settlement agreements, consent cease and desist orders and other agreements and orders entered into with HBUS, HNAH and/or the Company or issued to HNAH and/or HBUS and/or the Company by a number of US authorities in relation to AML failings and related matters on 11 December 2012 (including the deferred prosecution agreement (“DPA”) with the United States Department of Justice, Criminal Division, Asset Forfeiture and Money Laundering Section the United States Attorney’s Office for the Eastern District of New York, and the United States Attorney’s Office for the Northern District of West Virginia and the consent cease and desist order (“C&D order”) issued by the Board of Governors of the Federal Reserve System (together “the US Agreements and Orders”))

to the extent that the Company is able to do so with respect to any subsidiary undertaking having regard to the level of shares or voting power held by the Company, directly or indirectly, in respect of that subsidiary undertaking.

4. To receive regular reports from, and pay proper regard to the recommendations of, the skilled person appointed under section 166 of the Financial Services and Markets Act 2000 to provide independent oversight of the implementation and ongoing operations of HSBC Group in complying with AML, sanctions, terrorist financing and proliferation financing obligations (the “Monitor”) and Group money laundering reporting officer (“Group MLRO”) including, where appropriate, implementing those recommendations in a timely and effective manner or providing explanation of non-implementation to relevant regulators.
5. To establish, implement and maintain adequate policies and procedures to ensure proactive notification to the Group MLRO and to the relevant national regulators of any AML, sanctions, terrorist financial or proliferation financing issues that are likely to constitute a breach of applicable laws or regulations by the Company or any member of the HSBC Group.
6. To oversee and, where requested, advise the Board on areas where the Group may become exposed, and through that exposure the financial system more broadly may be exposed, to financial crime or system abuse, and to provide governance, oversight and policy guidance over the Group’s framework of controls and procedures designed to identify financial crime and financial system abuse risks, including with respect to the following areas:
  - 6.1 anti-money laundering systems and controls;
  - 6.2 prevention of terrorist financing;
  - 6.3 prevention of association with illegal drugs activities;
  - 6.4 application and enforcement of financial sanctions;
  - 6.5 intelligence in relation to all of the above regarding emerging threats; and
  - 6.6 maintenance of effective relationships with Governments and Law enforcement agencies in relation to the above.
7. To receive input from the Group Global Standards Steering Meeting and to provide advice to that Committee and to the Group Risk Committee as requested.
8. To provide:
  - 8.1 a quarterly report to the Board;
  - 8.2 a semi-annual report to the Core College of Regulators of the HSBC Group;
  - 8.3 an annual summary report to the Global College of Regulators of the HSBC Group;
  - 8.4 full minutes and papers to the FSA;
  - 8.5 oversight of any reporting to the Department of Justice in accordance with the terms of the DPA, to be shared with the FSA and the Federal Reserve Bank of Chicago;
  - 8.6 oversight of any reporting in compliance with the C&D order, to be shared with the FSA; and
  - 8.7 reporting to the FSA in accordance with its requests on compliance of HSBC Group with UK requirements.

9. The Committee may appoint, employ or retain such professional advisors as the Committee may consider appropriate. Any such appointment shall be made through the Committee Secretary, who shall be responsible for the contractual arrangements and payment of fees by HSBC on behalf of the Committee.
10. To undertake or consider on behalf of the Chairman or the Board such other related tasks or topics as the Chairman or the Board may from time to time entrust to it.
11. The Committee shall review annually the Committee's terms of reference and its own effectiveness and recommend to the Board any necessary changes. Any material amendments to these terms of reference must be approved by the FSA.