

# **HSBC Bank USA, National Association**

IDI Plan

Section I – Public Section

July 2018



## IDI Plan: Section I – Public Section

*This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements about HSBC Group's beliefs and expectations. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made. HSBC Group makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statements. The US Resolution Plans (as defined herein) are not binding on a bankruptcy court, HSBC Group's regulators or any other resolution authority and the scenarios described and the assumptions made are hypothetical and do not necessarily reflect events to which HSBC Group is or may be subject.*

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### 1. INTRODUCTION

#### 1.1 US Resolution Plan Requirements

In 2012, the Federal Deposit Insurance Corporation (**FDIC**) issued a final rule (**IDI Rule**) that requires insured depository institutions (**IDIs**) with assets of USD50 billion (**Covered IDIs**) or more to submit periodically to the FDIC a plan for resolution of the IDI in the event of failure. In addition, the FDIC provided further clarification, guidance and direction for the 2015 preparation of the IDI Plan (as defined below) in 2014.

The assets of HSBC Holdings plc's (**HGHQ**, and together with its affiliates and subsidiaries **HSBC Group**) largest IDI in the United States (**US**), HSBC Bank USA, National Association (**HBUS**), exceed USD50 billion, and as a result HBUS is a Covered IDI under the IDI Rule and it must file a resolution plan in accordance with the IDI Rule (**IDI Plan**).

Separately in 2011, the FDIC and the Board of Governors of the Federal Reserve System (**FRB**) issued a final rule (**SIFI Rule**) implementing Section 165(d) of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (**DFA**). For foreign bank holding companies such as HSBC Group, the SIFI Rule requires bank holding companies with total global consolidated assets of USD50 billion or more (**Covered Company**) to submit periodically to the FRB and FDIC a plan for the rapid and orderly resolution in the event of material distress or failure of the Covered Company's US operations. As the global consolidated assets of HGHQ, the holding company for the HSBC Group, exceed USD50 billion, it is a Covered Company under the SIFI Rule and must file a resolution plan in accordance with the SIFI Rule (**SIFI Plan**).

The HSBC Group's initial US resolution plan submissions incorporated both an IDI Plan and SIFI Plan (together, the **US Resolution Plans**). The initial US Resolution Plan submissions were made to the FDIC and the FRB as of July 1, 2013 and subsequently updated and submitted to the FDIC and the FRB as of July 1, 2014 and December 31, 2015. This document is HBUS's fourth submission to the FDIC of an IDI Plan, with a submission date as of July 1, 2018. As required by the SIFI Rule, a separate SIFI Plan will be submitted by December 31, 2018 describing how the HSBC Group's US operations (**US Group**), including HSBC North America Holdings Inc. (**HNAH**) as the US Group's intermediate holding company (**IHC**), would be resolved under the assumptions required by the SIFI Rule.

The FDIC requires all Covered IDIs to prepare IDI Plans. The FDIC has, by rule and through the supervisory process, prescribed the assumptions, required approach and scope for the IDI Plan and has required that certain information be included in a public section of the IDI Plan. HBUS submits this public section of the IDI Plan in compliance with the IDI Rule and other relevant guidance.

While there are important similarities between IDI Plans and SIFI Plans, it is important to consider their material differences. For example, the purpose of a SIFI Plan is to show how a Covered Company and its material subsidiaries can be resolved in a rapid and orderly manner under the US Bankruptcy Code (**Bankruptcy Code**) or other generally applicable insolvency law. The SIFI Rule defines "rapid and orderly resolution" as "a reorganization or liquidation of the covered company . . .



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under the Bankruptcy Code [or other generally applicable insolvency law] within a reasonable period of time and in a manner that substantially mitigates the risk that the failure of the covered company would have serious adverse effects on financial stability in the United States.” The focus is on mitigating the risk that the failure of a Covered Company could destabilize the US financial system.

In contrast, the purpose of a IDI Plan is to assume that the Covered IDI—in this case, HBUS—has failed and to show how the Covered IDI can be resolved under the bank resolution provisions of the Federal Deposit Insurance Act (**FDIA**) “in a manner that ensures that depositors receive access to their insured deposits within one business day of the IDI’s failure (or two business days if the failure occurs on a day other than a Friday), maximizes the net present value return from the sale or disposition of the IDI’s assets and minimizes the amount of any loss realized by the creditors in the resolution.” The FDIA also requires that the strategy result in the least cost to the FDIC’s Deposit Insurance Fund (**DIF**) of all possible alternatives. These objectives should, however, be viewed in light of the FDIC’s mission to maintain public confidence in the nation’s banking system.

Under the IDI Rule, Core Business Lines (**CBLs**) must be mapped to Material Entities (**MEs**). The CBLs and MEs that have been designated for the IDI Plan are described further below. The IDI Plan also identifies Critical Services (**CSs**) as required by the IDI Rule, which are services and operations of the IDI, such as servicing, information technology support and operations, and human resources which are necessary to continue the day-to-day operations of the IDI, and maps them to MEs and CBLs.



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### 1.2 HSBC Group Global and US structure

HSBC Group is subject to regulation by financial regulators in multiple jurisdictions. As a foreign bank holding company (**BHC**), HGHQ does not carry out any banking activities directly. Rather, HSBC Group primarily consists of a large number of separately incorporated and capitalized banking entities across different jurisdictions. HSBC Group operates on the principle that each operating bank, including HBUS, is separately governed, capitalized, funded and risk-managed, that funding and liquidity are premised on appropriate country-specific requirements and that each operating bank is capable of resolution consistent with applicable local law. Each of the operating banks is also managed independently, in order to reduce HSBC Group interconnectedness. HSBC Group's regional and national subsidiary structure provides HSBC Group with significant advantages in promoting greater resilience for HSBC Group's operations within individual countries, including the US. In particular, HSBC Group's subsidiary structure and its emphasis on independent balance sheet management, ensure that HSBC Group's operating subsidiary entities and banks satisfy domestic capital, liquidity and funding requirements (as applicable) and have the independent resources to respond to financial stress.

HNAH is a financial holding company (**FHC**) organized under the laws of the State of Delaware and is the IHC for the US Group. As of December 31, 2017, the US Group represents only a small portion of HSBC Group, making up only 11% (or approximately one-ninth) of HSBC Group's assets, most of which are in HBUS, which makes up 66% of the assets of the US Group. The rest of HSBC Group's US subsidiaries are much less significant from an HSBC Group-wide perspective due to their much smaller sizes and due to their functions. The US Group MEs are described in greater detail in Section 3.2.

**1.3 HSBC Group business model**

HSBC Group is a global banking and financial services organization. HSBC Group is headquartered in London, England, and operates through long-established businesses and had, as at December 31, 2017, an international network of over 3,900 offices in 67 countries and territories organized in five geographic regions. A comprehensive range of banking and related financial services is offered to personal, commercial, corporate, institutional, investment and private banking clients. Services are delivered primarily by subsidiary banks, typically with local deposit bases.

Within the geographical regions, HSBC Group's operations are conducted through a network of regional banks and locally incorporated regulated banking entities. Each operating bank, including HBUS, is separately capitalized in accordance with applicable prudential requirements and maintains a capital buffer consistent with HSBC Group's appetite for risk in its country or region. The banking entities manage their own funding and liquidity within parameters set centrally.

HSBC Group has five principal activities, which include making payments, holding savings, enabling trade, providing finance and managing risks. Through these principal activities, HSBC Group provides facilities for customers to securely and conveniently deposit savings, and allows funds to flow from savers and investors to credit-worthy borrowers, either directly or through the capital markets. This allows borrowers to use the borrowed funds to buy goods or invest in businesses, enabling the economy to convert shorter-term savings into longer-term financing. HSBC Group also facilitates relationships between investors and those seeking investors, and acts as payment agent for both personal and commercial transactions, both within countries and internationally. HSBC Group's direct lending includes residential and commercial mortgages and overdrafts, and term loan facilities. HSBC Group finances importers and exporters engaged in international trade and provides advances to companies secured on amounts owed to them by their customers. HSBC Group also offers additional financial products and services including broking, asset management, financial advisory services, life insurance, corporate finance, securities services and alternative investments. HSBC Group provides these products for clients ranging from governments to large and mid-market corporates, small and medium-sized enterprises, high net worth individuals and retail customers.

HSBC Group's four global businesses, Retail Banking and Wealth Management (**RBWM**), Commercial Banking (**CMB**), Global Banking and Markets (**GBM**) and Global Private Banking (**GPB**), develop, implement and manage their business propositions consistently across HSBC Group, focusing on profitability and efficiency. The global businesses set their strategies within the parameters of the HSBC Group strategy and, in liaison with the geographical regions, are responsible for issuing planning guidance regarding their businesses, are accountable for their profit and loss performance and manage headcount.





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### 1.3.1 Retail Banking and Wealth Management

The RBWM global business served nearly 37 million customers globally as at December 31, 2017. HSBC Group takes deposits and provides transactional banking services to enable customers to manage their day-to-day finances and save for the future. HSBC Group offers credit facilities to assist customers in their short- or longer-term borrowing requirements and it provides financial advisory, broking, insurance and investment services to help them to manage and protect their financial future. HSBC Group develops products designed to meet the needs of specific customer segments, which may include a range of different services and delivery channels.



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### 1.3.2 Commercial Banking

The CMB global business provides a broad range of banking and financial services to enable customers to manage and grow their businesses domestically and internationally. CMB offers credit and lending services, including commercial real estate, international trade and receivables finance, payments and cash management services, insurance and investment products.



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### 1.3.3 Global Banking and Markets

The GBM global business provides wholesale capital markets and transaction banking services organized across the following client-facing businesses: (i) Global Markets, which includes four businesses organized by asset class, including: (a) Global Fixed Income (Rates and Credit) (b) Global Foreign Exchange (**FX**) (FX Cash, Options and Metals); (c) Equities; and (d) Research; (ii) Global Banking, which includes (a) Lending, (b) Underwriting and (c) Advisory; (iii) Global Liquidity and Cash Management; (iv) Securities Services; and (v) Global Trade and Receivables Finance. GBM provides tailored financial solutions to major governmental, corporate and institutional clients worldwide. Managed as a global business with regional oversight, GBM operates a long-term relationship management approach to build a full understanding of clients' financial needs. In addition, GBM includes Balance Sheet Management, which is responsible for the management of liquidity and funding for HSBC Group. It also manages structural interest rate positions within the Global Markets limit structure.



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### 1.3.4 Global Private Banking

The GPB global business serves high net worth and ultra-high net worth individuals and their families with complex and international needs within HSBC Group's home and priority markets. GPB provides solutions to grow, manage and preserve the wealth of its clients for today and for the future. Its products and services include Private Banking (**PB**), Investment Management and Private Wealth Solutions.

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### 2. OVERVIEW OF GLOBAL AND IDI PLAN RESOLUTION STRATEGY

#### 2.1 HSBC Group Resolution Planning

The HSBC Group preferred resolution strategy is based on the resolution of regional or national groups of affiliated companies in what is referred to as a multiple point of entry (*MPE*) resolution strategy (i.e., a resolution strategy where each ME is resolved independently in its own resolution proceedings). HBUS's resolution strategy for purposes of this IDI Plan is described in Section 2.2.1.

The MPE strategy is based on local resolution actions and therefore does not overly depend on cross-border cooperation in resolution, which cannot necessarily be relied upon in a systemic crisis.

An MPE strategy contemplates multiple points of entry in the resolution process and is consistent with the HSBC Group's legal structure given it is principally made up of locally incorporated, regulated and ring-fenced operating entities which are required to meet local capital requirements, manage liquidity locally and are locally funded whether through local or global debt issuances. The HSBC Group also operates on the principle that each operating entity, such as HBUS, is separately governed and risk-managed, that funding and liquidity are premised on appropriate country-specific requirements and that each operating entity is capable of resolution consistent with applicable law.

Further, the HSBC Group ensures managerial independence for all HSBC Group operating entities, including HBUS, in order to reduce HSBC Group's interconnectedness. As a general rule each operating entity has its own corporate governance structure, including a board of directors and appropriate risk, audit (or combined risk and audit) committees and management structures. Each operating entity is overseen by the local board of directors and the relevant Country CEO or Country Manager, with strategy and policy for each business and function set globally. Each operating entity has its own risk appetite statement consistent with the risk profile of HSBC Group and the region or country of its incorporation.

As part of HSBC Group's global resolution planning, it has undertaken steps to improve resolvability and remove barriers posed by operational interconnections between HSBC Group's various entities worldwide. Principal among these is HSBC Group's creation of an operational subsidiary structure (the **ServCo Group** and each service company, a **ServCo**) to house internal shared services so as to remove interbank dependencies across HSBC Group. Each operating entity is supported by the ServCo Group which provides operational support services on an arm's-length basis via a bankruptcy-remote group of non-bank operating companies. These operating companies provide services to HSBC Group operating entities through resolution-resilient intercompany service agreements on arm's-length terms. In this way, the ServCo Group significantly reduces the risk associated with operational dependencies within an operating bank and across operating banks.

HBUS's IDI Plan was accordingly prepared as part of HSBC Group's global effort to address resolution planning in multiple jurisdictions through a consistent approach, while being responsive to each individual jurisdiction's resolution planning requirements. The IDI Plan is focused on planning for the resolution of HBUS under the FDIA in the unlikely event of its failure, as required by the IDI Rule and described in Section 1.1. There are existing plans and plans being formulated in other



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jurisdictions for HGHQ subsidiaries operating in these jurisdictions. These plans call for the recovery or resolution of those HGHQ subsidiaries according to the applicable rules and laws in those specific jurisdictions. Accordingly, the assumptions, definitions and specific actions in the IDI Plan may differ from those in similar plans filed by HGHQ or its subsidiaries pursuant to other applicable rules and laws, including the SIFI Plan.

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### 2.2 IDI Plan Resolution Strategy

Under the IDI Rule and subsequent guidance, HBUS must be resolved in a manner that is least costly to the DIF, ensures depositors have access to their insured deposits within one business day of failure (or two business days if the day HBUS fails is any day other than a Friday), maximizes the value of HBUS's assets and minimizes the amount of any loss realized by creditors in the resolution. Guidance under the IDI Rule further requires that several resolution strategies for HBUS be prepared. HSBC Group believes that the IDI Plan achieves these goals and allows for the orderly resolution of HBUS.

HBUS's IDI Plan envisions the separate resolution of HBUS and other US MEs through separate resolution or insolvency proceedings. This leverages the advantages inherent in the HSBC Group's business model of subsidiaries with independent capital and liquidity management. For purposes of the IDI Plan, HBUS's resolution strategy is an FDIC receivership under the FDIA, as described in Section 2.2.1.

There are four US MEs based on the criteria set forth in the IDI Rule, all of which are direct or indirect subsidiaries of HNAH:

- HBUS is a national bank, which offers a full range of commercial and retail banking products and related financial services to its customers, including individuals, small businesses, corporations, institutions and governments. HBUS is also a swap dealer registered with the Commodity Futures Trading Commission (**CFTC**) and is an international dealer in derivative instruments denominated in US dollars and other currencies, focusing on structuring of transactions to meet clients' needs.
- HSBC USA Inc. (**HUSI**) is a FHC organized under the laws of the State of Maryland. It is a direct, wholly owned subsidiary of HNAH and the direct parent company of HSBC Group's principal US banking subsidiary, HBUS, which is the Covered IDI.
- HSBC Securities (USA) Inc. (**HCSU**) is a registered broker-dealer of securities under the Securities Exchange Act of 1934 (**Exchange Act**), a registered investment adviser under the Investment Advisers Act of 1940 and a registered futures commission merchant (**FCM**) with the CFTC. It is a direct, wholly owned subsidiary of HSBC Markets (USA) Inc. (**HMUS**) which is a direct, wholly owned subsidiary of HNAH, and is not an ME. HCSU is engaged in the following activities: interest rates trading, credit trading, exchange-traded futures and options execution and clearing services, equities commissions business and other ancillary products and services.
- HSBC Technology & Services (USA) Inc. (**HTSU**) is a corporation organized under the laws of the State of Delaware and is a direct, wholly owned subsidiary of HNAH. HTSU forms part of the HSBC Operations, Services and Technology (**HOST**) shared services organization and is a dedicated service provider within the US Group, and the primary provider, of HOST services to all of the US Group MEs and CBLs. It is also the primary service provider of the Global Functions (the **Global Functions**) for the US Group. As one of HSBC Group's



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ServCo entities, HTSU receives payment from and provides services to other US Group entities on arm's-length terms pursuant to intercompany service agreements that have been amended to contain resolution-resilient terms that facilitate the continued provision of services during resolution. HTSU is subject to the same financial resilience requirements as the rest of the ServCo Group.

In addition, HGHQ, HSBC Bank plc (**HBEU**), HSBC Global Services Company (UK) Limited (**HGSU**), The Hongkong and Shanghai Banking Corporation Limited (**HBAP**) and HNAH have certain interconnections with HBUS and are discussed in HBUS's IDI Plan, even though they are not MEs.

In the 2015 submission, HSBC Finance Corporation (**HBIO**), a corporation organized under the laws of the State of Delaware and a direct, wholly owned subsidiary of HNAH, was included as a ME. HBIO's primary business is Consumer Finance (**CF**) which is being wound down for strategic reasons and accordingly HBIO is no longer regarded as a ME.



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### 2.2.1 HBUS

HBUS would be resolved under the FDIA by the FDIC, following its appointment as receiver using one of the following strategies:

1. An immediate whole-bank purchase and assumption (**P&A**) transaction transferring HBUS's operations to another bank;
2. A bridge bank (**Bridge Bank**) resolution involving the transfer of HBUS's operations and the majority of its assets and liabilities to a Bridge Bank that preserves continuity and maintains the value of HBUS's business and assets, followed by:
  - a. A P&A transaction with an acquirer involving substantially all of the Bridge Bank's assets and liabilities;
  - b. A sale of the CBLs (or their associated assets) housed in HBUS either separately or in packages, including pools of assets to multiple acquirers (the **Multiple Acquirer Strategy**); or
  - c. An initial public offering (**IPO**) of a part of the Bridge Bank, after first reducing its size by selling certain CBLs and assets (the **IPO Strategy**); or
3. A pay-out of insured deposits and the liquidation of assets out of the FDIC receivership (the **Liquidation Strategy**).

An immediate P&A transaction would provide continuity for all of HBUS's business activities and operations through a transfer to the acquirer. By preserving the going concern value of HBUS's transferred operations, their value is maximized and will support the assumption by the P&A acquirer of more of HBUS's liabilities, thereby reducing any potential cost to the DIF or systemic impact.

Alternatively, HBUS could be resolved through a transfer of substantially all of its assets and deposits, and substantially all of its other liabilities, including those that support CBLs, to an FDIC-operated Bridge Bank. The FDIC would operate the Bridge Bank as a going concern until its ultimate sale or other disposition. Upon such transfer, the Bridge Bank would be able to continue operating HBUS's CBLs and other businesses transferred to the Bridge Bank. As discussed above, following the transfer of HBUS's operations to the Bridge Bank, a potential acquirer could be found to acquire HBUS in a post-receivership P&A transaction.

The second option for resolution of HBUS through a Bridge Bank is the Multiple Acquirer Strategy. Under the Multiple Acquirer Strategy, certain CBLs and material assets would be sold to acquirers in order to reduce the size of the Bridge Bank, and any remainder would be wound down. HSBC Group evaluated potential divestitures based on a number of criteria, including operational interdependencies, attractiveness as an acquisition target, integration into the global enterprise and potential to materially reduce the balance sheet size of the Bridge Bank, and determined the business combinations which would provide the most value in a resolution scenario sale. A wide



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population of potential acquirers was identified based upon interest in HBUS's large and diversified deposit base, significant branch network and business lines.

Under the IPO Strategy, the FDIC could reduce the size of the Bridge Bank in preparation for an IPO. Based on HSBC Group's analysis, this would be accomplished by the sale of certain CBLs or assets, as well as the gradual wind down of certain HBUS operations. Following the reduction in size of the Bridge Bank, the FDIC would move forward in offering shares of the Bridge Bank to the public in an US Securities and Exchange Commission (**SEC**) registered offering.

Lastly, under HBUS's Liquidation Strategy, HBUS would enter receivership and the FDIC would wind down HBUS's operations, while liquidating its assets and paying out insured deposits.



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### 2.2.2 HCSU

HSBC Group would attempt a sale of HCSU immediately before resolution. If a sale before failure could not be arranged, then HCSU would be resolved under the Securities Investor Protection Act (**SIPA**). If there exists a ready acquirer, HCSU's business or accounts could be sold after initiation of a SIPA proceeding by a trustee appointed by the Securities Investor Protection Corporation (**SIPC** and the **SIPC Trustee**). However, if a sale could not be arranged, the SIPC Trustee would likely liquidate HCSU's broker-dealer business, transfer its remaining FCM customer accounts to the extent possible and liquidate the remainder of the FCM business that is not transferred in a SIPA proceeding.



# HSBC

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### 2.2.3 HUSI

HUSI would be resolved under Chapter 11 of the Bankruptcy Code. HUSI is a holding company with minimal operations, and has publicly issued debt and structured notes which are registered on the New York Stock Exchange (**NYSE**). HUSI would be wound down in resolution.



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### 2.2.4 HTSU

HTSU is the dedicated US ServCo and can be expected to continue providing services to the Bridge Bank and other US MEs as needed during resolution. HTSU, like other ServCo entities, will have access to certain cash reserves to deal with cash flow problems resulting from the resolution or insolvency of HBUS. HTSU is paid on an arm's-length commercial basis, which further facilitates the continued provision of services to HBUS in a resolution scenario. Therefore, HTSU is not expected to fail or enter into bankruptcy proceedings under Chapter 11 for purposes of the IDI Plan, although it would scale down operations in conjunction with reductions in the scope of activity of Bridge Bank and other members of US Group.

**2.3 Post-resolution Structure**

The resulting state of the US Group MEs upon execution of the resolution strategy described in HBUS's IDI Plan would involve:

- HBUS's business would remain open, funded, capitalized and operating under the whole-bank P&A transaction and Bridge Bank P&A transaction. Under the Multiple Acquirer Strategy and IPO Strategy, the CBLs would still be continuously operated or wound down in an orderly manner. However, under the Multiple Acquirer Strategy, HBUS's business may be operated by several different acquirers. Similarly, in the IPO Strategy, certain CBLs may be operated by several different acquirers after the sale of those CBLs in preparation for the IPO.
- HCSU would either be sold immediately before resolution, allowing for it to remain open and operating, or would be transferred, liquidated or wound down in an orderly manner by the SIPC Trustee.
- HTSU would remain solvent and operational but would scale down operations in conjunction with the reductions in scope of activity of Bridge Bank and other members of US Group.
- HUSI, as a holding company with no operations and few assets, would simply be wound down under Chapter 11 of the Bankruptcy Code.

HSBC Group expects that all of the US MEs should retain sufficient liquidity to either continue operation post-resolution or be wound down in an orderly manner, in accordance with their strategy. As all of HSBC Group's US CBLs are operated out of the US MEs, the orderly resolution of the MEs ensures that all CBLs conducted out of HSBC Group's US Group are able to continue, transfer or wind down in an orderly manner.



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### **3. MATERIAL ENTITIES**

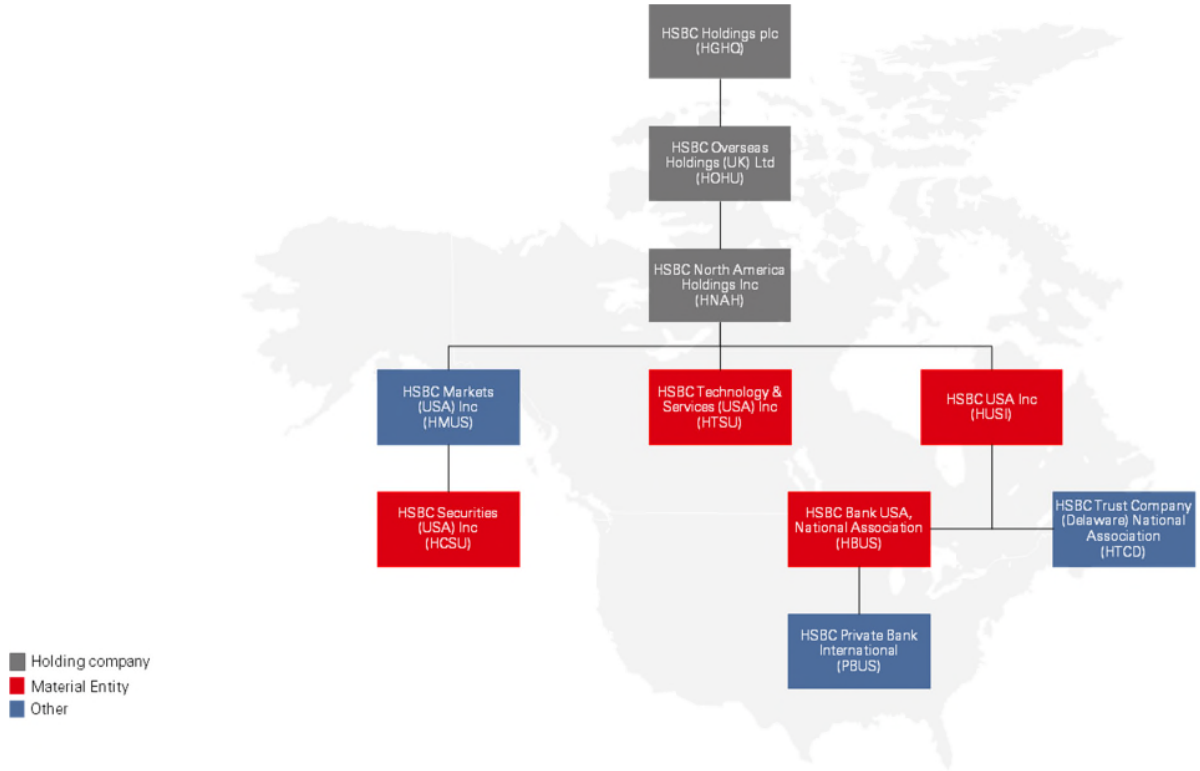
#### **3.1 Introduction**

As required by the IDI Rule, HBUS must identify as an ME any company that is significant to the activities of a CS or CBL of HBUS.

As discussed above, HBUS has identified four US MEs based on the criteria set forth in the IDI Rule: HUSI, HBUS, HCSU and HTSU.

A current simplified structure chart of the US MEs and their US and UK parent companies as at December 31, 2017, is shown in Figure 3.1 below.

Figure 3.1 – US Group Corporate Structure







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### 3.2 US Material Entities

#### 3.2.1 HSBC Bank USA, National Association

##### 3.2.1.1 Types of business conducted

HBUS, HSBC Group's principal US banking subsidiary and Covered IDI, is a national banking association chartered by the Office of the Comptroller of the Currency (the **OCC**). HBUS is a direct, wholly owned subsidiary of HUSI and an indirect, wholly owned subsidiary of HNAH, which is an indirect, wholly owned subsidiary of HGHQ.

HBUS, directly and through its subsidiaries, offers a full range of commercial and retail banking products and related financial services to its customers, including individuals (including high net worth individuals), small businesses, corporations, institutions and governments. HBUS is also a swap dealer registered with the CFTC and is an international dealer in derivative instruments denominated in US dollars and other currencies, focusing on the structuring of transactions to meet clients' needs. As described in Section 4, HBUS has seven CBLs for purposes of the IDI Plan. In addition to the CBLs conducted by HBUS, HBUS conducts non-core business including credit rating, equities and emerging markets businesses. Please refer to Section 4 for additional information on the types of business conducted by HBUS.

In total, there are 17 subsidiaries of HBUS as at December 31, 2017. HBUS has one significant but not material subsidiary, HSBC Private Bank International (**PBUS**), which is an Edge Act corporation engaged in but not material to the PB CBL. PBUS services high net worth non-US clients. HBUS has a number of other subsidiaries which supports its business, many of which were formed primarily as loan recovery property holders or special purpose entities for specific transaction needs.

As at December 31, 2017, HBUS and its subsidiaries had deposits of approximately USD132.4 billion.



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### 3.2.1.2 Financial data

The following table shows HBUS's consolidated assets and liabilities presented in accordance with US GAAP as at December 31, 2017.

**Figure 3.2.1.2A – HBUS Consolidated Balance Sheet**

HBUS SUMMARY BALANCE SHEET	
	USDm
<b>Assets</b>	
Cash and due from banks	1,115
Interest-bearing deposits with banks	11,103
Federal funds sold and securities purchased under agreements to resell	32,618
Trading assets	16,146
Securities available for sale	30,700
Securities held to maturity	13,974
Loans, net of allowances	65,172
Loans held for sale	715
Properties and equipment, net	185
Other assets	8,622
<b>Total assets</b>	<b>180,350</b>
<b>Liabilities</b>	
Deposits	132,465
Repurchase agreements and other short-term borrowings	3,496
Trading liabilities	4,362
Long-term borrowings	7,411
Subordinated debt	4,238
Other liabilities	5,100
<b>Total liabilities</b>	<b>157,073</b>
<b>Shareholders' equity</b>	
Preferred stock	2,500
Common shareholders' equity:	—
Common stock	2
Additional paid-in capital	18,468
Retained earnings / (deficit)	2,691
Accumulated other comprehensive income / (loss)	(384)
<b>Total shareholders' equity</b>	<b>23,278</b>
Non-controlling interests	—
<b>Total liabilities and shareholders' equity</b>	<b>180,350</b>



## IDI Plan: Section I – Public Section

The following table shows HBUS's unconsolidated revenues and expenses presented in accordance with US GAAP for the year ended December 31, 2017.

**Figure 3.2.1.2B – HBUS Unconsolidated Income Statement**

<b>HBUS SUMMARY INCOME STATEMENT</b>	
	<b>USDm</b>
Interest income	4,081
Interest expense	(1,579)
<b>Net interest income / (expense)</b>	<b>2,502</b>
Provision for credit losses	(165)
<b>Net interest income after provision for credit losses</b>	<b>2,667</b>
Other revenues:	
Fees and commissions	715
Income from fiduciary activities	156
Trading revenue	352
Other income	422
<b>Total other revenues</b>	<b>1,645</b>
Operating expenses:	
Salaries and employee benefits	1,076
Expenses of premises and fixed assets	256
Other expenses	2,004
<b>Total operating expenses</b>	<b>3,336</b>
Income / (loss) before taxes	<b>977</b>
Income tax expense / (benefit)	<b>1,195</b>
<b>Income / (loss)</b>	<b>(218)</b>
Net income / (loss) attributable to bank and minority interests	(437)
Net income / (loss) attributable to minority interests	0
<b>Net income / (loss)</b>	<b>(437)</b>
Discontinued operations	—
<b>Net income / (loss) attributable to bank and minority interests</b>	<b>558</b>
Net income / (loss) attributable to minority interests	—
<b>Net income / (loss)</b>	<b>558</b>



## IDI Plan: Section I – Public Section

### 3.2.1.3 Location and jurisdiction

HBUS is a national banking association chartered under the laws of the United States and has its principal executive office at 452 Fifth Avenue, New York, New York. HBUS has its main office at 1800 Tysons Blvd., Suite 50, Tysons, Virginia.

As at December 31, 2017, HBUS had 228 branches and 35 representative offices in 17 states and the District of Columbia.

In addition to its domestic offices, HBUS has a foreign branch in the UK and in Hong Kong. The London branch is inactive and has no dedicated staff. HBUS also maintains a representative office authority in Brazil through a contractual relationship with HSBC Brasil SA - Banco de Investimento, S.A. which is utilized by the PB CBL, and a representative office presence in Bogota, Colombia and Lima, Peru, each utilized by the Global Banking CBL (**GB CBL**).

HBUS also has two Edge Act corporations, PBUS and HSBC International Finance Corporation (Delaware), utilized in the PB CBL.



## IDI Plan: Section I – Public Section

### 3.2.1.4 Capital and funding resources

#### *Capital resources*

HBUS's shareholders' equity includes preferred and common stock, additional paid-in capital, retained earnings and accumulated other comprehensive income, and totals USD23.3 billion.

#### *Funding resources*

HBUS's primary source of funding is its deposit base and it supplements this source of funding by issuing short-term and long-term debt in the external market, borrowing under unsecured and secured financing facilities, selling liquid assets and receiving capital contributions from its immediate parent, HUSI.

HBUS maintains significant contingent liquidity in the form of its investment and trading asset portfolios, and its cash reserve on account at the Federal Reserve Bank of New York.



## IDI Plan: Section I – Public Section

### 3.2.1.5 Financial interconnectedness

HBUS provides secured loans on arm's-length terms to other MEs in the US Group subject to the requirements of Sections 23A and 23B of the Federal Reserve Act and the FRB's Regulation W (12 CFR Part 223), as well as other federal laws and regulations. As such, all extensions of credit by HBUS to other HSBC Group entities (other than other FDIC-insured banks) are legally required to be secured by eligible collateral. HBUS also enters into derivative contracts and conducts lending transactions in the ordinary course of business at prevailing market rates and terms with both other HSBC Group entities and third parties.

**3.2.1.6 Operational interconnectedness**

HBUS and its subsidiaries rely on three types of operational support, which they receive from a number of sources: HOST, Global Functions and the Global Businesses, in respect of primarily back-office services provided to multiple Operating Banks (***Global Business Managed Services***). In the UK, Hong Kong and the US, where Global Business Managed Services are shared between different Operating Banks, they have been (or will be) transferred from the respective Operating Bank to a ServCo entity.

Within HBUS and its subsidiaries, there are dedicated operations teams that provide support to MEs, including an Asset, Liability and Capital Management (***ALCM***) team; dedicated finance and risk (including compliance) teams; and a dedicated HOST team.

The US Internal Audit function is also principally located within HBUS. Outside this function and the dedicated operations teams within HBUS, HTSU is the primary service provider of both types of operational support to HBUS and its subsidiaries.

Limited support is also provided to HBUS and its subsidiaries by:

- dedicated HOST service providers, known as Global Service Centers (***GSCs***);
- HCSU, HGHQ, HBEU and HBAP for certain services;
- HBEU, HGSU, HTSU, HSBC France, HSBC Private Bank (Suisse) SA, HSBC Mexico S.A, Hang Seng Bank Limited and HBAP in relation to data centers; and
- HCSU and HBEU for certain payment, clearing and settlement system memberships.

**3.2.2 HSBC Technology & Services (USA) Inc.****3.2.2.1 Types of business conducted**

HTSU is a corporation organized under the laws of the State of Delaware and is a dedicated internal provider of information technology and centralized operational and support services, including human resources, tax, finance, compliance, legal, policy, communications and other services shared among HNAH and its subsidiaries, as well as across HSBC Group. HTSU is a direct, wholly owned subsidiary of HNAH, which is an indirect, wholly owned subsidiary of HGHQ. HTSU is the service provider of operational support to the MEs and CBLs.

HTSU is the primary service provider of Global Functions for the US Group. Global Functions provide certain support and administrative services across HSBC Group. Within the US Group, Global Functions are categorized as follows: US Finance; US Financial Crime Risk; US Internal Audit; US Risk (including Compliance); US HR; US Legal; US Communications; US Strategy and Planning (which includes Corporate Sustainability); US Marketing; and US Company Secretary.

HTSU also forms part of the HOST shared services organization within HSBC Group, which provides business operations, technology infrastructure, business support systems, procurement, property and other support services across HSBC Group. HTSU is the primary provider of HOST services to the MEs and CBLs.

As one of HSBC Group's ServCo entities, HTSU receives payment from and provides services to other US Group entities on arm's-length terms pursuant to intercompany service agreements that have been amended to contain resolution-resilient terms that facilitate the continued provision of services during resolution. HTSU, like other ServCo entities, will have access to certain cash reserves to deal with cash flow problems resulting from the resolution or insolvency of HBUS.



### 3.2.2.2 Financial data

The following table shows HTSU's assets and liabilities presented in accordance with US GAAP as at December 31, 2017.

**Figure 3.2.2.2A – HTSU Balance Sheet**

<b>HTSU SUMMARY BALANCE SHEET</b>	
	<b>USDm</b>
<b>Assets</b>	
Cash and due from banks	218
Properties and equipment, net	140
Other assets	304
<b>Total assets</b>	<b>662</b>
<b>Liabilities</b>	
Repurchase agreements and other short-term borrowings	90
Long-term debt	225
Other liabilities	391
<b>Total liabilities</b>	<b>706</b>
<b>Shareholders' equity</b>	
Total shareholders' equity	<b>-44</b>
<b>Total liabilities and shareholders' equity</b>	<b>662</b>



## IDI Plan: Section I – Public Section

The following table shows HTSU's revenues and expenses presented in accordance with US GAAP for the year ended December 31, 2017.

**Figure 3.2.2.2B – HTSU Income Statement**

HTSU SUMMARY INCOME STATEMENT	
	USDm
Interest income	-
Interest expense	12
<b>Net interest income / (expense)</b>	<b>(12)</b>
<b>Other revenues</b>	
Fees and commissions	-
Other income	1,653
<b>Total other revenues</b>	<b>1,653</b>
<b>Operating expenses</b>	
Salaries and employee benefits	979
Expenses of premises and fixed assets	48
Amortization expense and impairment losses for other intangible assets	-
Other expenses	648
<b>Total operating expenses</b>	<b>1,675</b>
Income / (loss) before taxes and extraordinary items	-34
Income tax expense / (benefit)	78
<b>Net Income / (loss)</b>	<b>(112)</b>



## IDI Plan: Section I – Public Section

### 3.2.2.3 Location and jurisdiction

HTSU is incorporated under the laws of Delaware and has its principal office at 1421 W. Shure Drive, Arlington Heights, IL 60004.

HTSU does rely to some degree on GSCs and Global Technology Centers (**GLTs**) for operational support; the GSCs and GLTs are located outside of the US in low cost locations. In addition, while HTSU operations are based within the US, HTSU also provides certain services to HSBC Group entities outside of the US Group.



## IDI Plan: Section I – Public Section

### 3.2.2.4 Capital and funding resources

#### *Capital resources*

HTSU's shareholders' equity includes common stock issued within HSBC Group. HTSU also generates capital through the retained profit arising from the provision of its services. If HTSU requires additional capital, this could be provided by its parent company, HNAH.

#### *Funding resources*

HTSU's primary source of funding is the payments received from the provision of services to other HSBC Group entities.



## IDI Plan: Section I – Public Section

### 3.2.2.5 Financial interconnectedness

As a central US service company, HTSU's primary source of revenue is from payments by HSBC Group entities for services provided, mainly to the US MEs. It has also received USD315 million of term funding from HNAH. HTSU uses those cash flows and existing cash resources to pay operating expenses and to service the loan that it has received from HNAH.

As one of HSBC Group's ServCo entities, HTSU receives payment from and provides services to other US Group entities on arm's-length terms pursuant to intercompany service agreements that have been amended to contain resolution-resilient terms that facilitate the continued provision of services during resolution.



## IDI Plan: Section I – Public Section

### 3.2.2.6 Operational interconnectedness

HTSU is the primary service provider of operational support to the MEs. This operational support is made up of services provided by the Global Functions and HOST. In order to provide the support to the US Group, HTSU itself relies on dedicated HOST service providers, known as GSCs and GLTs. HTSU also relies on support from other HSBC Group entities to perform Global Function and HOST services.

**3.2.3 HSBC Securities (USA) Inc.****3.2.3.1 Types of business conducted**

HCSU is a corporation organized under the laws of the State of Delaware. It is a direct, wholly owned subsidiary of HMUS, which is a direct wholly owned subsidiary of HNAH, which is an indirect, wholly owned subsidiary of HGHQ.

HCSU is a registered broker-dealer of securities under the Exchange Act, a registered Investment Adviser under the Investment Advisers Act of 1940 and a registered FCM with the CFTC. HCSU is a primary dealer in US government and government agency securities. HCSU is regulated by the SEC and CFTC and is also indirectly regulated by the FRB.

HCSU is engaged in the following activities:

- interest rates trading, such as US government and government agency securities trading, primary dealer for US Treasuries, Repurchase Agreements (**Repos**) and Reverse Repos (**Reverse Repos**) (including entering of Repos and Reverse Repos on a matched book basis), securities borrowing and lending, distribution of structured notes issued by HUSI and HBUS and clearing of over-the-counter (**OTC**) rates derivatives;
- credit trading, such as corporate investment-grade bond trading and debt underwriting;
- exchange-traded futures and options execution and clearing services;
- equities commission business, including institutional and retail brokerage sales; and
- other advisory services such as equity underwriting, leveraged and acquisition financing, project and export finance, asset-backed financing, asset and structured finance and mergers and acquisitions services.

The majority of HCSU's customers are other financial institutions and institutional investors.

### 3.2.3.2 Financial data

The following table shows HCSU's consolidated assets and liabilities presented in accordance with US GAAP as at December 31, 2017.

**Figure 3.2.3.2A – HCSU Consolidated Balance Sheet**

<b>HCSU SUMMARY BALANCE SHEET</b>	
	<b>USDm</b>
<b>Assets</b>	
Cash and due from banks	6,313
Interest-bearing deposits with banks	3
Federal funds sold and securities purchased under agreements to resell	70,687
Trading assets	10,206
Other assets	4,192
<b>Total assets</b>	<b>91,402</b>
<b>Liabilities</b>	
Repurchase agreements and other short-term borrowings	79,633
Trading liabilities	7,238
Subordinated debt	750
Other liabilities	2,946
<b>Total liabilities</b>	<b>90,567</b>
<b>Shareholders' equity</b>	
Total shareholders' equity	835
<b>Total liabilities and shareholders' equity</b>	<b>91,402</b>





## IDI Plan: Section I – Public Section

The following table shows HCSU's consolidated revenues and expenses presented in accordance with US GAAP for the year ended December 31, 2017.

**Figure 3.2.3.2B – HCSU Consolidated Income Statement**

<b>HCSU SUMMARY INCOME STATEMENT</b>	
	<b>USDm</b>
Interest income	1,443
Interest expense	1,262
<b>Net interest income (expense)</b>	<b>181</b>
<b>Other revenues</b>	
Other fees and commissions	478
Trust income	31
Trading revenue, net	(4)
HSBC Group affiliate income	268
Other / (loss) income	2
<b>Total other revenues</b>	<b>775</b>
<b>Operating expenses</b>	
Salaries and employee benefits	367
Support services from HSBC Group affiliates	420
Occupancy expense, net	1
Other expenses	192
<b>Total operating expenses</b>	<b>980</b>
Income / (loss) before taxes and discontinued operations	(24)
Income tax expense / (benefit)	(45)
<b>Net Income / (loss)</b>	<b>21</b>



## IDI Plan: Section I – Public Section

### **3.2.3.3 Location and jurisdiction**

HCSU is incorporated under the laws of Delaware and has its principal executive office at 452 Fifth Avenue, New York, New York.

HCSU has a single foreign branch located in Hong Kong, which is registered with the Securities and Futures Commission. The Hong Kong branch sells US securities (primarily US treasury securities) to non-US residents.

HCSU's customers are almost exclusively based in the US.

**3.2.3.4 Capital and funding resources***Capital resources*

HCSU's capital is comprised of shareholders' equity and subordinated loan instruments, which are compliant with Financial Industry Regulatory Authority (**FINRA**) requirements for capital treatment. Capital is provided from within the US Group only and primarily from HNAH or HUSI.

*Funding resources*

HCSU's primary source of funding is the US Repo market. In order to satisfy the need for unsecured funding, HCSU also has access to committed and uncommitted unsecured credit facilities from HSBC Group entities and third parties. HCSU generates cash flows from its investment banking activities, notably securities financing activities and through fee income related to GBM business within HCSU.



## IDI Plan: Section I – Public Section

### 3.2.3.5 Financial interconnectedness

HCSU has access to committed and uncommitted unsecured credit facilities from other HSBC Group entities. HCSU also enters into Repo trades with other HSBC Group entities as part of its matched book securities financing business.

**3.2.3.6 Operational interconnectedness**

HCSU relies on two types of operational support, which it receives from a number of sources: Global Functions and HOST.

HCSU also relies on dedicated operations teams within HCSU itself, that provide support, including:

- an ALCM team;
- a dedicated US securities legal team and risk and Human Resources (*HR*) teams;
- an operations team which provides back-office support; and
- a software development team which provides “run the bank” support.

Outside the dedicated operations teams within HCSU, HTSU is the primary service provider of both types of operational support.

Limited support is also provided to HCSU by other HSBC Group entities for certain services, data center hosting, payment, clearing and settlement system memberships and dedicated HOST service providers.



## IDI Plan: Section I – Public Section

### 3.2.4 HSBC USA Inc.

#### 3.2.4.1 Types of business conducted

HUSI is a FHC organized under the laws of the State of Maryland and is an intermediate level holding company for HSBC Group's US operations. HUSI is a direct, wholly owned subsidiary of HNAH and the direct parent company of HSBC Group's principal US banking subsidiary, HBUS. Substantially all of HUSI's operations are conducted through HBUS, the operations of which are described above. HUSI's other subsidiaries include HSBC Trust Company (Delaware), National Association, which is engaged in the Private Banking CBL (**PB CBL**) but is not an ME.

HUSI's principal business is to act as a holding company for its subsidiaries. HUSI has issued debt securities, certain of which are registered on the NYSE. As an issuer of securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934, HUSI is required to file periodic reports with the Securities and Exchange Commission (**SEC**).

### 3.2.4.2 Financial data

The following table shows HUSI's unconsolidated assets and liabilities presented in accordance with US GAAP as at December 31, 2017.

**Figure 3.2.4.2A – HUSI Unconsolidated Balance Sheet**

<b>HUSI SUMMARY BALANCE SHEET</b>	
	<b>USDm</b>
<b>Assets</b>	
Interest-bearing deposits with banks	1
Receivables and balances due from subsidiaries	14,536
Securities held-to-maturity	2
Receivables from other HSBC affiliates	6,722
Investment in subsidiary	23,316
Other assets	149
<b>Total assets</b>	<b>44,726</b>
<b>Liabilities</b>	
Repurchase agreements and other short-term borrowings	1,154
Long-term debt	21,266
Subordinated debt	2,050
Other liabilities	137
<b>Total liabilities</b>	<b>24,632</b>
<b>Shareholders' equity</b>	
Preferred stock	1,265
Common shareholders' equity:	
Common stock	-
Additional paid-in capital	18,130
Retained earnings / (deficit)	1,130
Accumulated other comprehensive income / (loss)	(431)
<b>Total shareholders' equity</b>	<b>20,094</b>
<b>Total liabilities and shareholders' equity</b>	<b>44,726</b>



## IDI Plan: Section I – Public Section

The following table shows HUSI's unconsolidated revenues and expenses presented in accordance with US GAAP for the year ended December 31, 2017.

**Figure 3.2.4.2B – HUSI Unconsolidated Income Statement**

<b>HUSI SUMMARY INCOME STATEMENT</b>	
	<b>USDm</b>
Income	
Dividends from banking subsidiaries	136
Interest from subsidiaries	309
Interest from other HSBC affiliates	37
Other interest income	5
Other income (loss)	320
<b>Total income</b>	<b>807</b>
Interest to other HSBC Affiliates	40
Other interest expense	541
<b>Other expenses</b>	<b>18</b>
<b>Total expenses</b>	<b>599</b>
<b>Income (loss) before taxes and equity in undistributed income (loss) of subsidiaries</b>	<b>208</b>
Income tax expense (benefit)	18
<b>Income (loss) before equity in undistributed income (loss) of subsidiaries</b>	<b>190</b>





## IDI Plan: Section I – Public Section

### **3.2.4.3 Location and jurisdiction**

HUSI is incorporated under the laws of the State of Maryland and has its principal executive office at 452 Fifth Avenue, New York, New York. As a holding company, all of HUSI's material operations are conducted through its subsidiaries. Information with respect to the geographic footprint of its subsidiaries that are MEs can be found below.

All but one of HUSI's direct and indirect subsidiaries are organized or incorporated in the US. HUSI (indirectly through HBUS) has one non-US incorporated wholly owned subsidiary, HSBC Financial Services (Uruguay) SA, which is incorporated in Uruguay and is in the process of being liquidated.

**3.2.4.4 Capital and funding resources***Capital resources*

HUSI's capital resources include common stock and preference shares that have been issued within HSBC Group. If HUSI requires additional capital, this could be sourced from its direct parent company, HNAH.

*Funding resources*

HUSI's primary sources of funding are commercial paper (**CP**) issued to third-party investors and debt issued to both HSBC Group entities and third parties. HUSI generates cash flows from the provision of funding to other HSBC Group entities and it may receive cash from its subsidiaries in the form of dividends.

**3.2.4.5 Financial interconnectedness**

As a FHC for HSBC Group's US operations, HUSI has various forms of financial interconnections with other HSBC Group entities. These interconnections relate primarily to CP issued to third parties and debt issued to both HSBC Group entities and third parties. Financial interconnectedness also exists as a result of HUSI receiving cash from subsidiaries in the form of dividends and generating cash flows from the provision of funding to other HSBC Group entities.

Other financial interconnections relate to lending facilities that HUSI provides to several HSBC Group entities on a third-party basis. It has both credit exposure in respect of the facilities that have been drawn and contingent credit exposure in respect of the facilities that have not been drawn.



## IDI Plan: Section I – Public Section

### 3.2.4.6 Operational interconnectedness

HUSI's principal business is to act as a holding company for its subsidiaries, and it does not itself provide operational support to the US Group. HUSI is an issuer of securities registered pursuant to Section 12(b) of the Securities Act of 1933, as amended (the **Securities Act**) and HUSI receives the benefit of services from other MEs that are performing functions on behalf of HUSI.

**4. CORE BUSINESS LINES**

As required by the IDI Rule, HBUS must identify as a CBL any business line of HBUS, including associated operations, services, functions and support, that, in the view of HBUS, upon failure would result in a material loss of revenue, profit or franchise value.

HBUS has identified seven CBLs based on the criteria set forth in the IDI Rule. All of the CBLs are carried out primarily through HBUS, and some include operations with HCSU. The CBLs operate as part of HSBC Group's four global businesses: RBWM, CMB, GBM and GPB.

In addition, owing to legal entity and business simplification, CF, which was the CBL previously operated out of HBIO, is being wound down and is no longer a CBL for purposes of the IDI Plan.



## IDI Plan: Section I – Public Section

### 4.1 Global Banking Core Business Line

The Global Banking CBL (**GB CBL**) sits within the GBM global business. The GB CBL offers lending services and cash management services and relationship management services for GBM clients. It provides a variety of banking products and services to its clients to support their diverse capital structures.



## IDI Plan: Section I – Public Section

### 4.2 Global Markets Core Business Lines

HSBC Group's three designated Global Markets CBLs are conducted as part of the GBM global business and comprise Global Markets – Foreign Exchange (***GM-FX CBL***), Global Markets – Precious Metals (***GM-Metals CBL***) and Global Markets – Rates (***GM-Rates CBL***).



## IDI Plan: Section I – Public Section

### 4.2.1 GM-FX

The GM-FX CBL provides services in FX spot, forwards, swaps and other related derivatives. The business is a leading market-maker globally, quoting buy/sell prices in a wide range of tradable currencies, 24 hours a day across over 60 countries and territories.





## IDI Plan: Section I – Public Section

### 4.2.2 GM-Metals

The GM-Metals CBL principal activities include market-making, risk management/hedging, physical trading, bullion banking (i.e., lending), custody and clearing in gold, silver, platinum and palladium.



## IDI Plan: Section I – Public Section

### 4.2.3 GM-Rates

The GM-Rates CBL provides services in government bonds, interest rate swaps and other related derivatives. Its principal activities include dealing in U.S. government bonds, financing, innovative risk management and investment solutions by providing access to a broad range of vanilla and derivative products. The GM-Rates CBL is a market maker quoting real-time competitive prices across a number of rates products.

### 4.3 Commercial Banking

The Commercial Banking CBL (**CMB CBL**) is segmented into three primary groups: Corporate, Commercial Direct and International Subsidiary Banking. Additionally, the CMB CBL has a specialized Commercial Real Estate group which focuses on selective business opportunities in markets where the CMB CBL has a strong portfolio expertise. The CMB CBL offers credit and lending services, including commercial real estate, international trade and receivables finance, payments and cash management services, insurance and investment products. The CMB CBL offers a variety of standard banking products and services, including deposits, which may be insured up to USD250,000 per depositor.



## IDI Plan: Section I – Public Section

### 4.4 Retail Banking and Wealth Management

The RBWM CBL is part of HSBC Group's RBWM global business and focuses on checking and savings accounts (which may be insured up to USD250,000 per depositor), mortgages (including home equity), credit cards and overdraft facilities.



## IDI Plan: Section I – Public Section

### 4.5 Private Banking

The PB CBL is part of HSBC Group's GPB global business and is operated within HBUS. Its main products include banking products (checking and savings accounts, which may be insured up to USD250,000 per depositor), credit advisory (lending), mortgages, custody and investment management. Clients serviced by the PB CBL are categorized as ultra-high net worth and high net worth clients. The PB CBL provides banking services to clients located both in the United States and internationally. The major centers where the PB CBL operates in the United States include New York, NY and Miami, FL. The PB CBL products offered to clients are structured according to the client classification and range from standardized banking products to full-range tailored and institutional-type investment products sourced from GBM.

**5. ACTIONS TAKEN TO ENHANCE RESOLVABILITY OF HBUS AND THE US GROUP**

HSBC Group continues to review and revise its resolution plans globally (including HBUS's IDI Plan) in response to evolving regulatory requirements and guidance from its local regulators. Certain resolution planning and structural reforms have effectively strengthened the resiliency and resolvability of international banking organizations, including capital and liquidity requirements and the implementation of recovery plans.

Given HSBC Group's corporate structure and operating model, HSBC Group's global resolution strategy is based on the resolution of regional or national groups of affiliated companies. The global resolution strategy includes plans for the main operating banks in the HSBC Group's three main resolution hubs of the UK, US and Hong Kong and HSBC Group's non-hub banks. HSBC Group has been working with the Bank of England and the Prudential Regulation Authority, together with HSBC Group's other primary regulators to develop and agree to a resolution strategy for HSBC Group.

In common with all G-SIBs, HSBC Group is working with its regulators to assess interdependencies between different businesses and subsidiary banking entities in HSBC Group in order to enhance resolvability. As part of this planning, HSBC Group has initiated plans to mitigate or remove critical interdependencies to further facilitate the resolution of HSBC Group, including its US operations.

As part of its global resolution planning, HSBC Group has also undertaken efforts to enhance the resolvability of its US operations, including ensuring the continuity, transfer or orderly wind down of its systemically important functions, and improving its ability to resolve its US operations in an orderly manner under the Bankruptcy Code and all other applicable US resolution laws, such as SIPA or the FDIA. While most of these enhancement efforts span across the US Group or even more broadly across the HSBC Group, they also improve the resolvability of HBUS on a standalone basis, including if HBUS were to be resolved under the FDIA. The continued reduction of HSBC Group interdependencies, together with HSBC Group's efforts to enhance continuity of operations in resolution, serves to ensure that HBUS and the broader US Group could be resolved in an orderly fashion in the unlikely event of their failure.

**5.1 ServCo Group**

In particular, in order to remove interbank operational dependencies across HSBC Group, as well as intra-bank dependencies within the main resolution hubs in the US, Europe and Hong Kong, HSBC Group is transferring shared services from the individual subsidiary banks to the ServCo Group. The ServCo Group houses shared infrastructure, services and systems in a bankruptcy-remote group of non-bank operating companies. HSBC Group has largely completed the bulk of the implementation of the ServCo Group structure with the remaining elements due to complete by the end of 2018. These operating companies provide services to HSBC Group operating banks (including HBUS) through contracts on commercially reasonable terms, significantly reducing the risk associated with operational dependencies within an operating bank and across operating banks.

The ServCo Group is separately capitalized and funded to ensure continuity of services in the event of resolution. The ServCo Group retains sufficient reserves to deal with any financial stresses arising from the resolution of any of the operating banks that it serves. The resulting structure will facilitate a quicker disposal of businesses and/or the restructuring of operating banks than could be achieved with highly integrated and embedded operations and would result in better preservation of value in HSBC Group and the US Group.

Further, the current structure of the US Group's operations limits the level of interconnectedness between the US Group and the rest of the HSBC Group. In particular, the inter-entity and intra-entity dependencies between US Group entities and the rest of the HSBC Group are not significant because the large majority of shared services are located within an existing ServCo, namely HTSU. The existing US ServCo, HTSU, will remain in the US Group structure and will not be part of the ServCo Group, however it will operate on the same basis as the ServCo Group.

**5.2 Legal Structure of HSBC Group's US Operations**

Under the FRB's Regulation YY, foreign banking organizations with USD50 billion or more in total US non-branch assets, such as HSBC Group, must establish a US IHC to hold all US subsidiaries. Such an IHC is supervised and regulated by the FRB, and subject to enhanced prudential standards as if it were a US BHC. IHCs are subject to risk-based capital and leverage ratio requirements, as well as, among other things, capital planning, stress testing, liquidity buffer and risk management requirements. HNAH is the US Group's US IHC for purposes of the FRB's Regulation YY.



**5.3 QFC Stay Rules**

The FRB, the FDIC and the OCC issued final rules in 2017 (the **QFC Stay Rules**) to require the covered QFCs of entities covered by the rules to include an express recognition of the statutory stay-and-transfer powers of the FDIC under the FDIA and Title II of the Dodd-Frank Act, and prohibit the inclusion of cross-defaults based on an affiliate's entry into insolvency proceedings. The QFC Stay Rules are designed to complement the other rules issued by the U.S. bank regulators to enhance the resiliency and resolvability of G-SIBs. In particular, the QFC Stay Rules facilitate the recognition of the FDIC's powers to stay and transfer QFCs with non-U.S. counterparties governed by non-U.S. law, and to prevent early termination rights and fire sale of collateral based on an affiliate's entry into insolvency proceedings, which may in turn lead to the failure of subsidiaries that were otherwise performing under their contracts. The US Group intends to comply with the QFC Stay Rules as they are phased in, which will further enhance the resolvability of HBUS and the rest of the US Group.

**6. DERIVATIVE AND HEDGING ACTIVITIES**

HBUS transacts derivatives for three primary purposes: to create risk management solutions for clients, to manage the portfolio risks arising from client business and to manage and hedge HBUS's own risks.

Most of HBUS's derivative exposures arise from sales and trading activities within the GBM business line. HSBC Group's derivative activities give rise to significant open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels. When entering into derivative transactions, HBUS employs the same credit risk management framework to assess and approve potential credit exposures that it uses for traditional lending.

**6.1 Trading derivatives**

Most of HBUS' derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities include market-making and risk management. Market-making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume. Risk management activity is undertaken to manage the risk arising from client transactions, with the principal purpose of retaining client margin.

Other derivatives classified as held for trading include non-qualifying hedging derivatives, ineffective hedging derivatives and the components of hedging derivatives that are excluded from assessing hedge effectiveness.



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### 6.2 Derivatives for hedging risks

HBUS uses derivatives, principally interest rate swaps, for hedging purposes in the management of its own asset and liability portfolios and structural positions. This enables HBUS to optimize the overall cost of accessing debt capital markets and to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of its assets and liabilities.

### 7. MEMBERSHIPS IN MATERIAL PAYMENT, CLEARING AND SETTLEMENT SYSTEMS

As an essential part of engaging in the financial services industry and serving customers and clients, HBUS participates in payment, messaging, clearing and settlement systems, also known as financial market utilities (*FMUs*), to conduct financial transactions in a global economy.

The FMUs allow HBUS to provide payment services to customers and clients, to facilitate securities transactions (including through HCSU) and to engage in derivatives transactions as needed to manage risk, secure funding and meet the needs of customers and clients. These arrangements also allow for greater risk management and operational efficiencies in the trading of financial instruments worldwide.

For purposes of this section, “membership” means that an HSBC Group legal entity has direct access to an FMU to serve HSBC Group’s customers and clients around the globe. See below for a table mapping ME membership to key FMUs significant to HBUS’s operations.

**Figure 7 – Key FMU Memberships**

KEY FINANCIAL MARKET UTILITIES		
Name	Type	Membership
CHIPS	Payments	HBUS
EPN	Payments	HBUS
Fedwire	Payments	HBUS
CLS	FX Settlement	HBEU (settlement member)
SWIFT	Messaging	HBEU
Chicago Mercantile Exchange	Clearing and Settlement	HCSU
Fixed Income Clearing Corporation (Government Securities Division)	Clearing and Settlement	HBUS
Fixed Income Clearing Corporation (Mortgage-Backed Securities Division)	Clearing and Settlement	HBUS
LCH Clearnet	Clearing and Settlement	HBUS

#### **Payment systems**

- CHIPS –CHIPS is an electronic payments system that is owned by The Clearing House Association LLC, which is itself owned by a number of financial institutions (including HBUS). CHIPS is operated by The Clearing House Payments Company LLC, an affiliate of The Clearing House Association LLC. CHIPS carries out intra-day, high value US dollar payments settled in real time.
- EPN – The Electronic Payments Network (*EPN*) is a payment system that is owned by the Clearing House Association LLC and operated by The Clearing House Payments Company LLC. EPN provides automated clearing house services and handles a wide variety of lower-value US dollar transfers, such as payroll and dividends.

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- Fedwire – Fedwire is a real-time gross settlement (**RTGS**) system owned and operated by the 12 Federal Reserve Banks, which enables financial institutions to transfer funds between members.

### ***FX settlement systems***

- CLS – CLS provides a multi-currency cash settlement system. Through its CLS Settlement platform, CLS settles payment instructions related to trades in FX contracts.

### ***Messaging systems***

- SWIFT –The Society for Worldwide Interbank Financial Telecommunication (**SWIFT**) is a global message network for payment exchange that enables financial transaction messages to be sent and received securely and rapidly.

### ***Clearing and settlement systems***

- Chicago Mercantile Exchange – CME Group Inc.'s wholly owned subsidiary, Chicago Mercantile Exchange Inc. (**CME**), is used to clear interest rate swaps and certain other products through CME Clearing, a division of CME. CME Group Inc. is a publicly owned corporation, with shares listed on the NASDAQ Global Select Market.
- FICC – Fixed Income Clearing Corp (**FICC**), a subsidiary of The Depository Trust & Clearing Corporation, is a US securities clearing agency. FICC operates two divisions, including the Government Securities Division and the Mortgage-Backed Securities Division.
- LCH Clearnet – LCH Clearnet's wholly owned subsidiary, LCH Limited, is used to clear interest rate swaps. LCH Limited is wholly owned by LCH Clearnet Group Limited, which, in turn, is majority owned by the London Stock Exchange Group. The remaining shareholding is held by its users and other exchanges.

## 8. FOREIGN OPERATIONS

HSBC Group serves approximately 38 million customers globally. As at December 31, 2017, HSBC Group's network covered 67 countries and territories organized into five geographical regions (Europe, Asia, Middle East and North Africa, North America and Latin America). HSBC Group's operations are conducted through a network of regional banks and locally incorporated regulated banking entities.

As at December 31, 2017, HSBC Group had a total global workforce of approximately 229,000 full-time and part-time employees of which approximately 13,600 were located in the US.

As at December 31, 2017, HSBC Group had approximately USD2.5 trillion of assets. HSBC Group had approximately USD17.2 billion in profit before tax for the year ended December 31, 2017. The breakdown of both figures by geographic region is presented in the table below.

**Figure 8 – Group Summary Financials**

Financial Highlights by geographic regions at or for the year ended December 31, 2017			
	Total Assets USDm	Net Operating Income (Revenue) USDm	Profit (Loss) before Tax USDm
Europe .....	1,169,515	17,420	-1,864
Asia .....	1,008,498	25,806	15,329
Middle East and North Africa .....	57,469	2,660	1,501
North America .....	391,292	6,713	1,601
Latin America .....	48,413	3,225	600
Intra-HSBC Group items .....	-153,416	-4,379	0
Group .....	2,521,771	51,445	17,167

Listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges, shares in HGHQ were held by approximately 200,000 shareholders in 131 countries and territories as at December 31, 2017.

### ***HBUS foreign operations***

In addition to its domestic offices, HBUS has a foreign branch in the UK and in Hong Kong. HBUS's Hong Kong branch engage in trading and administrative activities as part of the GM-Metals CBL. The London branch is inactive and has no dedicated staff. HBUS also maintains a representative office authority in Brazil through a contractual relationship with HSBC Brasil SA - Banco de Investimento, S.A. which is utilized by the PB CBL, and a representative office presence in Bogota, Colombia, and Lima, Peru, each utilized by the GB CBL.

**9. MATERIAL SUPERVISORY AUTHORITIES****9.1 US supervisory authorities****9.1.1 Banking supervisory authorities**

HBUS and its US Group affiliates are subject to the extensive US statutory and regulatory framework applicable to bank holding companies, financial holding companies, banks and securities firms. This includes regulation under the Bank Holding Company Act of 1956, as amended (**BHC Act**), the Gramm-Leach-Bliley Act of 1999 (**GLB Act**), the Community Reinvestment Act of 1977, as amended (**CR Act**), and inspections, examinations and supervision by the US Group's primary regulator, the FRB. HBUS and certain of its US Group affiliates are also subject to the disclosure and regulatory requirements of the Securities Act, and the Exchange Act, as administered by the SEC. Such laws and regulations apply to certain activities of the US Group, including HBUS, HNAH and HUSI and impose prudential restrictions, such as limits on extensions of credit by HBUS to affiliates.

HGHQ, HNAH and HUSI are bank holding companies that qualified as financial holding companies as a result of amendments to the BHC Act effected by the GLB Act. Under these amendments, financial holding companies may engage in a broader range of activities than bank holding companies, provided they meet certain capital and/or management requirements and ratings levels under the CR Act. They are regulated by the FRB, which exercises umbrella authority over the US Group's activities. HNAH is supervised and examined by the Federal Reserve Bank of Chicago.

HBUS is subject to extensive regulation promulgated by the OCC, the FDIC, the Consumer Financial Protection Bureau (**CFPB**) and FRB. HBUS is subject to supervision and examination primarily by the OCC, secondarily by the FDIC and the CFPB. HBUS is subject to banking laws and regulations that place various restrictions on and requirements regarding their operations and administration, including the establishment and maintenance of branch offices, capital and reserve requirements, deposits and borrowings, investment and lending activities, compliance activities, payment of dividends and numerous other matters. HBUS is subject to regulation and examination primarily by the OCC, but is also subject to additional regulation and supervision by the FDIC, the FRB and the CFPB.

The GLB Act and the regulations issued thereunder contain a number of other provisions that affect HUSI's operations and those of HUSI's subsidiary banks, including regulations and restrictions on the activities they may conduct and the types of businesses and entities they may acquire. Furthermore, other provisions contain detailed requirements relating to the financial privacy of consumers.

The types of activities in which the non-US branches of HBUS may engage are subject to various restrictions imposed by the OCC, the FDIC and the FRB. These branches are also subject to the laws and regulatory authorities of the countries in which they operate.



**9.1.2 US securities regulatory authorities**

HCSU is a registered broker-dealer of securities under the Exchange Act, a registered Investment Adviser under the Investment Advisers Act of 1940 and a registered FCM with the CFTC. In 1996, HSBC Group was granted the authority by the FRB to engage, through HCSU, in limited underwriting and dealing activities under the BHC Act. HCSU is engaged in underwriting, dealing and brokering a full range of debt and equity securities and futures contracts. HCSU is also a primary dealer in US government and government agency securities.

HCSU is a member of the FINRA, the NYSE, Chicago Mercantile Exchange Group Inc. (**CME**), Intercontinental Exchange (**ICE**), LCH Clearnet Ltd (**LCH**) and the Options Clearing Corporation. HCSU is eligible to clear OTC derivatives at the CME, ICE and LCH.

As an international dealer in derivative instruments, HBUS is also a registered swap dealer with the CFTC.

“Push-out” provisions of the GLB Act removed the blanket exemption from registration for securities and brokerage activities conducted in banks (including HBUS) under the Exchange Act. Applicable regulations allow banks to continue to avoid registration as a broker or dealer only if they conduct securities activities that fall within a set of defined exceptions.



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### **9.2 Foreign supervisory authorities**

#### **9.2.1 Wider HSBC Group**

HSBC Group is subject to a significant body of laws and regulations that are a condition for authorization to conduct banking and financial services business in each country of incorporation. These requirements are largely prescribed on a jurisdictional basis by the applicable government, central bank, regulatory authorities or other applicable bodies.



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### 9.2.2 HBUS

There are no material foreign supervisors of HBUS's operations.



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### 10. PRINCIPAL OFFICERS

#### 10.1 HSBC Bank USA, National Association

As of December 31, 2017, the HBUS Board of Directors (**HBUS Board**) consisted of the members presented in the following table.

**Figure 10.1A – HBUS Board**

HBUS BOARD OF DIRECTORS		
Name	Appointed	Title
<b>Executive Directors</b>		
Patrick J. Burke	2014	Chairman, President and Chief Executive Officer
Rhydian H. Cox	2014	Senior Executive Vice President and Chief Risk Officer
<b>Non-Executive Directors</b>		
Phillip D. Ameen	2013	Non-Executive Director
Kevin M. Blakely	2013	Non-Executive Director
Barry F. Kroeger	2016	Non-Executive Director
Nancy G. Mistretta	2012	Non-Executive Director
Jane C. Sherburne	2015	Non-Executive Director

As of May 15, 2018, the Principal Executive Officers of HBUS consisted of the members presented in the following table.

**Figure 10.1B – HBUS Principal Executive Officers**

HBUS PRINCIPAL EXECUTIVE OFFICERS		
Name	Appointed	Title
Patrick J. Burke	2014	President and Chief Executive Officer
Mark A. Steffensen	2016	Senior Executive Vice President and General Counsel
Maureen A. Gillan-Myer	2016	Executive Vice President, Head of Human Resources USA
Rhydian H. Cox	2014	Senior Executive Vice President and Chief Risk Officer
Wyatt E. Crowell	2015	Senior Executive Vice President, Head of Commercial Banking
Loren C. Klug	2012	Senior Executive Vice President, Head of Strategy and Planning and Chief of Staff to CEO
Stephen R. Nesbitt	2015	Executive Vice President, Head of Regulatory Remediation
Richard E. O'Brien	2014	Senior Executive Vice President and Chief Auditor
Lopa P. Zielinski	2018	Executive Vice President and Corporate Secretary
Thierry Roland	2015	Senior Executive Vice President, Head of Global Banking and Markets Americas
Pablo Sanchez	2015	Senior Executive Vice President, Head of Retail Banking and Wealth Management
Vittorio M. Severino	2014	Senior Executive Vice President and Chief Operating Officer, USA



**HSBC**

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<b>HBUS PRINCIPAL EXECUTIVE OFFICERS</b>		
<b>Name</b>	<b>Appointed</b>	<b>Title</b>
William Tabaka	2015	Executive Vice President and Chief Accounting Officer
Joseph Abruzzo	2017	Executive Vice President, Head of Private Banking Americas
Mark A. Zaeske	2014	Senior Executive Vice President and Chief Financial Officer
John Panagopoulos	2018	Head of Financial Crime Compliance and Bank Secrecy Act Compliance Officer

**11. CORPORATE GOVERNANCE STRUCTURE AND PROCESSES RELATED TO RESOLUTION PLANNING****11.1 Global resolution planning**

HSBC Group supports the G20 Financial Stability Board and national regulators' aim of ensuring banking groups are resolvable and is fully committed to the resolution planning process. To reflect this support a global recovery and resolution planning program (the **RRP Program**) was established. The RRP Program is led by HSBC Group Head of Corporate Structuring who leads HSBC Group Corporate Structuring team and is accountable to a steering committee led by HSBC Group Finance Director. The RRP Program is focused on ensuring that each Recovery and Resolution Plan (**RRP**), including the IDI Plan, satisfies jurisdictional regulatory requirements while also maintaining consistency with HSBC Group's resolution planning and overall resolution strategy. To achieve this objective, the HSBC Group Corporate Structuring team oversees country-level RRP teams, such as the US RRP team, and contributes to the production of jurisdictional plans.

The HSBC Group Corporate Structuring team accordingly worked with and supported the US RRP team during the creation of the IDI Plan. The US RRP team retains primary responsibility for the production of the IDI Plan and day-to-day liaison with US regulators.

**11.2 US resolution planning governance and organization**

The US RRP team was established in 2012 to take responsibility for the ongoing activities required to produce the annual US Resolution Plans. The US RRP team located key stakeholders from across the global businesses, Global Functions and HOST. The key stakeholders contributed to the 2018 IDI Plan, as required, including participation in specialized work streams or subgroups to produce required deliverables.

The US RRP team was accountable to the US RRP Executive Steering Committee (**RRP ESC**) that oversaw the creation and approval of the 2018 US Resolution Plan. The RRP ESC is composed of the CEO, Chief Financial Officer and General Counsel for each of HBUS and HNAH, as well as HSBC Group Head of Corporate Structuring. Additional Legal, Finance, Risk, HOST and Group Corporate Structuring team representatives also attend the RRP ESC meetings. This committee meets at each approval milestone or as necessary and provides oversight and strategic direction.

Formal oversight responsibilities were also assigned to the HNAH Executive Committee.



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### **11.3 Approval of IDI Plan**

The HBUS Board considered the IDI Plan following endorsement by the RRP ESC and the HNAH and HBUS Executive Committees.

The HBUS Board approved the IDI Plan in accordance with the IDI Rule.



**12. MATERIAL MANAGEMENT INFORMATION SYSTEMS**

HBUS's operations rely on robust management information systems (**MIS**) and reporting to monitor the financial health, risk and operations of its MEs and CBLs. On a daily to monthly basis, the HSBC Group global businesses, Global Functions and/or HOST provide management and the regulators with risk management, liquidity, accounting, operations and financial reports detailing a broad range of information, including with respect to HBUS, necessary to maintain HSBC Group's strong financial position. The management information and reports used by management to conduct business as usual operations, in addition to certain bespoke management information, have been used to support the development of the IDI Plan.

HBUS continues to make progress to improve processes and systems for producing the required information and analytics. Through these improvements the collection and analysis of the information required is incorporated into more business-as-usual processes.

In connection with enhancing its MIS capabilities, HBUS work has focused on identifying the most critical MIS reports that would be required to manage its operations during a period of crisis. This analysis includes when each report is typically available, quantifying the effort required to produce each report, and highlighting relevant aspects of the US corporate governance model where such management information (**MI**) is reviewed and decisions are made. The MIS reference database houses a complete inventory of MI, including critical and other business as usual reports. HBUS has documented the link between critical MIS and the critical services that would be required in a resolution scenario.

HBUS's material MIS includes systems that are used by its businesses and functions to manage a wide array of business as usual processes including, but not limited to: (i) deposit-taking activities, (ii) client activity, (iii) risk measures, (iv) liquidity and capital management, (v) financial and regulatory reporting, (vi) financial crime risk management and (vii) other operational processes.