

**HSBC USA INC.  
HSBC BANK USA, N.A.**

**CHARTER OF THE  
COMPLIANCE AND CONDUCT COMMITTEE**

**I. Committee Purpose**

The Compliance and Conduct Committee (the “Committee”) is appointed by the Boards of Directors of HSBC USA Inc. (“HUSI” or the “Corporation”) and HSBC Bank USA, N.A. (“HBUS” or “HSBC Bank USA”), and is responsible, on behalf of the Board, to:

**Oversee remediation activities at its monthly Committee meetings (collectively, “Remediation Matters”), including to:**

- 1) Monitor and oversee the corrective actions in the Compliance and Bank Secrecy Act (“BSA”) and Anti-Money Laundering (“AML”) functions of HSBC Bank USA and to oversee HSBC Bank USA’s adherence to the provisions of the Consent Order issued by the Office of the Comptroller of the Currency (“OCC”) dated October 6, 2010 (the “OCC AML Order”);
- 2) Monitor and oversee HSBC Bank USA’s adherence to the provisions of the Consent Order issued by the OCC dated December 11, 2012 (the “OCC Enterprise-Wide Compliance Order”) and to oversee HSBC Bank USA’s efforts to achieve and maintain an effective enterprise-wide compliance program; and
- 3) Monitor compliance with any other supervisory action taken by any state or federal regulators of the Corporation or HSBC Bank USA. The OCC AML Order and the OCC Enterprise-Wide Compliance Order are collectively referred to as the “Orders”.

**Oversee general compliance and conduct matters at its quarterly Committee meetings (collectively “Compliance/Conduct Matters”) including to:**

- 1) Provide ongoing oversight on the effectiveness and sustainability of the Corporation’s and HSBC Bank USA’s Financial Crime Compliance and Regulatory Compliance programs;
- 2) Provide oversight on the governance processes that underpin the Corporation’s and HSBC Bank USA’s conduct and values principles, including setting the “Tone at the Top”, and monitoring the penetration thereof throughout the organization to oversee that outcomes are consistent with HSBC Group expectations; and
- 3) Provide oversight of the Corporation’s, HSBC Bank USA’s and their subsidiaries’ policies, procedures and standards as they relate to conduct and development of responsible business practices in accordance with the HSBC Group values and culture, and in conformance with applicable laws, rules and regulations.

**Oversee fiduciary matters at its quarterly Committee meetings (collectively “Fiduciary Matters”) including to:**

Monitor and oversee management with respect to the fiduciary activities conducted within subsidiaries and fiduciary business lines of HSBC Bank USA and to oversee management’s proper exercise of fiduciary responsibilities and powers as defined by and required under laws, rules and regulations applicable to fiduciary activities (including the United States Department of Labor Rule covering Retirement Products, the Securities and Exchange Commission 1940 Investment Advisory Act covering Managed Accounts, the Investment Advisors Act of 1940 and 12 CFR 9 (Regulation 9)).

**II. Committee Composition and Meetings**

The Committee shall consist of not less than three (3) Directors, a majority of which shall be independent, non-executive directors. The Board may from time to time appoint additional members to the Committee. The appointment of the Chair and all Committee members shall be made by the Board.

The Committee shall meet with such frequency as it may consider appropriate, but in any event not less than monthly to discuss Remediation Matters listed in Section III below and shall meet not less than quarterly to discuss Compliance/[Conduct]/Fiduciary Matters listed in [Section IV] below, in addition to Remediation Matters.

If the total number of Directors on the Committee is odd, a quorum to transact business at the meeting will be a majority of the Directors. If the total number of Directors is even, a quorum will exist if one-half of the Directors are present.

Each year, a schedule of matters to be considered by the Committee at its scheduled meetings will be presented to the Committee and may be amended from time to time to facilitate Committee compliance with this Charter. The Secretary of the Committee shall produce materials and minutes of all meetings and the Committee shall make regular reports to the Board on all its activities since its last report.

The Committee shall also provide information believed to be pertinent to the performance of responsibilities of other committees of the Board to those committees as appropriate. The Committee may invite any Director, executive, independent auditor 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 satisfaction of its responsibilities.

**III. Committee Responsibilities; Remediation Matters**

The Committee shall have the following responsibilities, powers, direction and authorities:

**Regulatory Orders**

- 1) To review written progress reports detailing the form and manner of all actions taken to secure compliance with: a) the OCC AML Order, including a timetable and schedule to implement specific remedial actions to be taken to address the recommendations in an

independent consultant's BSA/AML Report, and the results thereof; and b) the OCC Enterprise-Wide Compliance Order, including a timetable and schedule to implement specific remedial actions to be taken to address the weaknesses identified in the compliance program and the results and status of those actions; such reports to be submitted by the Board of Directors to the OCC within 30 days of the end of each calendar quarter

- 2) To make regular reports to the Boards of Directors on its activities and management's progress relative to enhancement of the Regulatory and Financial Crime Compliance functions, and, with respect to HSBC Bank USA, the corrective actions in HSBC Bank USA's Enterprise-Wide Compliance and BSA/AML functions.
- 3) To (a) ensure that the HSBC Bank USA and the Corporation have sufficient financial and managerial resources, processes, personnel and control systems to implement and adhere to the provisions of the OCC Orders and to recommend to the HSBC Bank USA and the Corporation Board of Directors, such action as the Committee deems advisable, to fully utilize the financial and managerial resources of HSBC Bank USA and the Corporation, to serve as a source of strength, including but not limited to taking steps to ensure that HSBC Bank USA and the Corporation comply with the OCC Orders and (b) consider the adequacy of resources, qualifications and experience of senior management of the Compliance Department, its training programs, budget and succession planning for key roles in the function.
- 4) To receive regular reports from management concerning all action called for by management or the Board of Directors of HSBC Bank USA in the OCC Orders, or through any other communication from the OCC, and concerning all action directed by the Board of Directors of HSBC Bank USA in connection with the OCC Orders. The Committee shall direct timely corrective action for any non-compliance with action called for under the OCC Orders and as otherwise directed by the Board of Directors of HSBC Bank USA with respect to the OCC Orders.
- 5) To approve the appointment and replacement of the Head of Regulatory Compliance and/or Head of Financial Crime Compliance and other compliance officers as the Committee deems appropriate. The Committee shall review and approve the annual key objectives and performance review of the Head of Regulatory Compliance and Head of Financial Crime Compliance. The Chairman of the Committee shall provide input to the Chairman of the Risk Committee on the annual key objectives and performance review of the Chief Risk Officer.
- 6) The Committee will monitor HSBC Bank USA's achievement and maintenance of an effective Financial Crime Compliance and enterprise-wide compliance program.
- 7) The Committee shall seek such assurance as it may deem appropriate that the Chief Risk Officer, Head of Regulatory Compliance and Head of Financial Crime Compliance:
  - (i) participate in the risk management and oversight process at the highest level on an enterprise-wide basis;

- (ii) have total independence from individual business units;
  - (iii) report to the Committee and have internal functional reporting lines to the Managing Director, Head of Group Risk; Global Head of Financial Crime Risk and/or Global Head of Regulatory Compliance; and
  - (iv) have direct access to the Chairman of the Committee in the event of need.
- 8) To provide the respective Board of Directors with such additional assurance as it may reasonably require regarding the Corporation's/ HSBC Bank USA's compliance with regulatory and legal requirements.

#### **IV. Committee Responsibilities: Compliance, Conduct and Fiduciary Matters**

The Committee shall have the following additional responsibilities, powers, direction and authorities:

##### Compliance Matters

- 9) To receive regular reports from the Chief Risk Officer, Head of Regulatory Remediation, Head of Regulatory Compliance and/or Head of Financial Crime Compliance including:
- annually, present the Compliance Operating Plans, including key objectives and resource funding, for the Committee's review and approval;
  - annually, present the Compliance Education Training Plans, including the training on BSA/AML and Office of Foreign Assets Control ("OFAC") to the Committee for review and approval;
  - annually, present the Enterprise Compliance Policy and Program ("ECP") for the Committee's review and approval;
  - annually, for Regulatory Compliance ("RC"), and semi-annually for Financial Crime Compliance ("FCC"), present HNAH-wide Compliance Programs and an enterprise-wide Financial Crime Compliance Program for the Committee's review and approval;
  - semi-annually, for RC, and quarterly for FCC, report on the state of the Compliance Department and progress under the Compliance Operating Plans relative to established program objectives;
  - quarterly, provide a report of key trends, metrics, risk assessments, significant breaches of established thresholds against operational risk indicators, and significant events relating to Regulatory Compliance (including fair lending laws, the Volcker Rule and swap dealer matters) and Financial Crime Risk (including BSA/AML and OFAC);
  - from time to time, based upon changes in law, regulation, circumstances or experience, recommend such changes to the overarching Compliance Program and Compliance Policies as the Chief Risk Officer, Head of Regulatory Remediation, Head of Regulatory Compliance and/or Head of Financial Crime Compliance deems appropriate, and significant changes shall be presented to the Committee for endorsement;

- from time to time, review, approve and periodically receive reports related to the Financial Crime Risk Specialized Assurance Testing Plan ; and
  - from time to time, reports on conformity of HNAH's compliance program to HSBC Group policies.
- 10) To oversee, through management reports to the Committee, the continuing maintenance and enhancement of a strong and sustainable compliance culture, including initiatives to instill a culture in which there is/are:
- a strong emphasis on accountability and strict compliance with the spirit and letter of laws and regulations, as well as local and HSBC Group policies and procedures;
  - responsibility for awareness through communication and/or training of compliance standards and implementation of effective oversight and monitoring of compliance risk in business, function and operation is locally understood and managed; and
  - compliance programs that reflect best practices are developed and re-evaluated on a regular basis and implemented in the ordinary course of business.
- 11) To monitor and oversee (i) compliance with any significant supervisory actions taken by any state or federal regulators of the Corporation and/or HSBC Bank USA and/or their subsidiaries, (ii) sustainability of corrective action taken as a result of any supervisory action taken by any state or federal regulators, and (iii) remediation of material deficiencies in compliance with laws, rules and regulations; including reviewing and advising the respective Board on the effectiveness and adequacy of policies and procedures established by management as a result thereof.

#### Conduct and Values

- 12) To promote and oversee continuing maintenance and enhancements of the HSBC Group principles on conduct and values, and review evidence on the extent to which management and employees are adhering to the HSBC Group principles.
- 13) To monitor the effectiveness of governance processes that support conduct and values within HUSI, HBUS and their subsidiaries. In particular, the Committee will seek to oversee that processes pertaining to hiring, compensation, promotions, dismissal, diversity and employee training are consistent with desired outcomes as they apply to conduct and values.
- 14) To review, approve and periodically receive reports related to HNAH's Statement of Business Principles and Code of Ethics.

#### Responsible Business Practices

- 15) To consider the way in which HUSI and HBUS, including their subsidiaries, treat customers and the products and services provided, including product design, suitability, sales processes and incentives, after-sales service, transparency of fees, using customer satisfaction levels as a key measure of effectiveness.

- 16) To oversee policies and procedures on conduct of business, including those relating to compliance with competition laws and conduct in financial markets (including trade execution, information exchange and management of conflict of interest).

#### Fiduciary Matters

- 17) To monitor and oversee management of the HUSI and HBUS fiduciary business activities and, among others, evaluate the proper exercise of fiduciary responsibilities and powers in accordance with relevant laws, rules and regulations governing fiduciary activities through management reports to the Committee.

#### **V. General Matters**

- 18) To make regular reports to the Board on its activities and management's progress relative to implementation by HUSI, HBUS and their subsidiaries of HSBC Group's conduct, values and compliance principles.
- 19) To perform any other duties or responsibilities expressly delegated to the Committee by the Board from time to time, and undertake or consider on behalf of the Chairman or the Board such other related tasks or topics as the Chairman or the Board may request from time to time.
- 20) As appropriate, the Committee shall meet in executive session with the (i) Head of Regulatory Compliance, (ii) Head of Financial Crime Compliance, [(iii) Chief Ethics Officer and/or (iv) Head of Human Resources] at least twice each year.
- 21) To engage in an annual self-assessment with the goal of continuing improvement, and to review and reassess the adequacy of this Charter at least annually and recommend any proposed changes to the Board for approval.
- 22) In its discretion, to retain special counsel, advisors, experts, or other consultants and to consider from time to time any other matters which the Committee believes are required of it in keeping with its responsibilities. In its discretion, the Committee may obtain such professional external advice as it shall deem appropriate to take account of relevant experience outside the Corporation and HSBC Bank USA and challenge its analysis and assessment. Any such appointment shall be made through the Corporate Secretary, who shall be responsible, on behalf of the Committee, for the contractual arrangements and payment of fees by the Corporation and HSBC Bank USA.

Where there is a perceived overlap of responsibilities between the Committee and another committee of the Board, the respective committee Chairmen shall have the discretion to agree the most appropriate committee to fulfill any obligation. An obligation under the Charter of any Board Committee will be deemed by the Board to have been fulfilled, provided it is dealt with by any other Board Committee.

Where the Committee's monitoring and review activities reveal cause for concern or scope for improvement, it shall make recommendations to the respective Board of Directors on action

needed to address the issue or to make improvements and shall report such concerns to a different Board Committee as appropriate.

While the Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Committee to plan or conduct compliance assessments or reviews. This is the responsibility of management, and particularly the Compliance function. Nor is it the duty of the Committee to conduct investigations or to otherwise assure compliance with laws and regulations or codes of ethics that apply to the Corporation and its subsidiaries.

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