

HSBC HOLDINGS PLC
Form 6-K
March 02, 2010

FORM 6-K

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a — 16 or 15d — 16 of

the Securities Exchange Act of 1934

For the month of March

HSBC Holdings plc

42nd Floor, 8 Canada Square, London E14 5HQ, England

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F).

Form 20-F Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934).

Yes..... No

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-).

Table of Contents

**UNITED STATES SECURITIES AND
EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-K

(Mark One)

- x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

OR

- o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-7436

HSBC USA Inc.

(Exact name of registrant as specified in its charter)

Maryland

(State of incorporation)

452 Fifth Avenue, New York

(Address of principal executive offices)

13-2764867

(I.R.S. Employer Identification No.)

10018

(Zip Code)

(212) 525-5000

Registrant's telephone number, including area code

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Floating Rate Notes due August 13, 2010	New York Stock Exchange
Floating Rate Notes due June 17, 2011	New York Stock Exchange
3.125% Guaranteed Notes due December 16, 2011	New York Stock Exchange
Floating Rate Guaranteed Notes due December 19, 2011	New York Stock Exchange
Depository Shares (each representing a one-fourth share of Adjustable Rate Cumulative Preferred Stock, Series D)	New York Stock Exchange
\$2.8575 Cumulative Preferred Stock	New York Stock Exchange
Floating Rate Non-Cumulative Preferred Stock, Series F	New York Stock Exchange
Depository Shares (each representing a one-fortieth share of Floating Rate Non-Cumulative Preferred Stock, Series G)	New York Stock Exchange
Depository Shares (each representing a one-fortieth share of	

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Floating Rate Non-Cumulative Preferred Stock, Series H)

New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of February 26, 2010, there were 712 shares of the registrant's common stock outstanding, all of which are owned by HSBC North America Inc.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Table of Contents**HSBC USA Inc.****TABLE OF CONTENTS**

	Page
Part I	
Item 1.	Business
	<u>Organization History and Acquisition by HSBC</u> 4
	<u>HSBC North America Operations</u> 4
	<u>HSBC USA Inc. General</u> 4
	<u>Funding</u> 6
	<u>Employees and Customers</u> 6
	<u>Operations</u> 7
	<u>Regulation and Competition</u> 8
	<u>Corporate Governance and Controls</u> 13
	<u>Cautionary Statement on Forward-Looking Statements</u> 14
Item 1A.	<u>Risk Factors</u> 14
Item 1B.	<u>Unresolved Staff Comments</u> 21
Item 2.	<u>Properties</u> 21
Item 3.	<u>Legal Proceedings</u> 22
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u> 22
Part II	
Item 5.	<u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> 22
Item 6.	<u>Selected Financial Data</u> 23
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	<u>Executive Overview</u> 24
	<u>Basis of Reporting</u> 31
	<u>Critical Accounting Policies and Estimates</u> 34
	<u>Balance Sheet Review</u> 42
	<u>Results of Operations</u> 48
	<u>Segment Results - IFRS Basis</u> 58
	<u>Credit Quality</u> 69
	<u>Liquidity and Capital Resources</u> 85
	<u>Off-Balance Sheet Arrangements and Contractual Obligations</u> 90
	<u>Fair Value</u> 94
	<u>Risk Management</u> 100
	<u>New Accounting Pronouncements to be Adopted in Future Periods</u> 118
	<u>Glossary of Terms</u> 119
Item 7A.	<u>Quantitative and Qualitative Disclosures about Market Risk</u> 123
Item 8.	<u>Financial Statements and Supplementary Data</u> 123

Table of Contents

	Page	
<u>Part III</u>		
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	220
<u>Item 9A.</u>	<u>Controls and Procedures</u>	220
<u>Item 9B.</u>	<u>Other Information</u>	220
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	220
<u>Item 11.</u>	<u>Executive Compensation</u>	229
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	255
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	256
<u>Item 14.</u>	<u>Principal Accounting Fees and Services</u>	258
<u>Part IV</u>		
<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules and Reports on Form 8-K</u>	258
<u>Index</u>		260
<u>Signatures</u>		263
EX-12		
EX-21		
EX-23		
EX-31		
EX-32		

Table of Contents*HSBC USA Inc.***PART I****Item 1. Business.****Organization History and Acquisition by HSBC**

HSBC USA Inc. (HSBC USA) and, together with its subsidiaries, HUSI), incorporated under the laws of the State of Maryland in 1973 as Republic New York Corporation, traces its origin to 1850 and The Marine Trust Company in Buffalo, New York, which later became Marine Midland Bank. In 1980, The Hongkong and Shanghai Banking Corporation Limited (now HSBC Holdings plc, hereinafter referred to as HSBC) acquired 51 percent of the common stock of Marine Midland Banks, Inc., the holding company for Marine Midland Bank, and the remaining 49% in 1987. In December 1999, HSBC acquired Republic New York Corporation through a merger with RNYC Merger Corporation, a wholly owned subsidiary of HSBC, with Republic New York Corporation surviving the merger and merged Marine Midland Banks, Inc., then known as HSBC USA Inc., with and into Republic New York Corporation. In January 2000, Republic New York Corporation changed its name to HSBC USA Inc.

HSBC North America Operations

HSBC North America Holdings Inc. (HSBC North America) was the holding company for HSBC 's operations in the United States and Canada at December 31, 2009. The principal subsidiaries of HSBC North America at December 31, 2009 were HSBC USA, HSBC Markets (USA) Inc., a holding company for certain global banking and markets subsidiaries, HSBC Finance Corporation (HSBC Finance), a holding company for consumer finance businesses, HSBC Bank Canada, a Federal bank chartered under the laws of Canada (HBCA), and HSBC Technology & Services (USA) Inc. (HTSU), a provider of information technology and centralized operational and support services including human resources, corporate affairs and other services shared among the subsidiaries of HSBC North America which beginning in 2010, will also include tax, finance, compliance and legal. In late January 2010, HBCA was sold to an affiliate and is no longer a subsidiary of HSBC North America. Under the oversight of HSBC North America, HUSI works with its affiliates to maximize opportunities and efficiencies in HSBC 's operations in the United States. These affiliates do so by providing each other with, among other things, alternative sources of liquidity to fund operations and expertise in specialized corporate functions and services. This has been demonstrated by purchases and sales of receivables between HSBC Bank USA, National Association (HSBC Bank USA) and HSBC Finance and a pooling of resources within HTSU to provide shared, allocated support functions to all HSBC North America subsidiaries. In addition, clients of HSBC Bank USA, HSBC USA 's principal U.S. banking subsidiary, and other affiliates are investors in debt and preferred securities issued by HSBC USA and/or HSBC Bank USA, providing significant sources of liquidity and capital to both entities. HSBC Securities (USA) Inc., a Delaware corporation, a registered broker dealer and a subsidiary of HSBC Markets (USA) Inc., leads or participates as underwriter of all HUSI domestic issuances of term corporate and, historically, HSBC Finance term corporate and asset-backed securities. While neither HSBC USA nor HSBC Bank USA has received advantaged pricing, the underwriting fees and commissions payable to HSBC Securities (USA) Inc. benefit HSBC as a whole.

HSBC USA Inc. General

HSBC Bank USA, HSBC USA 's principal U.S. banking subsidiary, is a national banking association with banking branch offices and/or representative offices in California, Connecticut, Delaware, Florida, Illinois, Maryland, Massachusetts, New Jersey, New York, Oregon, Pennsylvania, Texas, Virginia, Washington and the District of Columbia. In addition to its domestic offices, HSBC Bank USA maintains foreign branch offices, subsidiaries and/or representative offices in the Caribbean, Europe, Asia, Latin America and Canada. In this Form 10-K, HSBC USA and

its subsidiaries are referred to as we, us or our. Through HSBC Bank USA, we offer our customers a full range of commercial and consumer banking products and related financial services. Our customers include individuals, including high net worth individuals, small businesses, corporations, institutions and governments.

Table of Contents*HSBC USA Inc.*

HSBC Bank USA also engages in mortgage banking, and is an international dealer in derivative instruments denominated in U.S. dollars and other currencies, focusing on structuring of transactions to meet clients' needs, as well as for proprietary purposes. HSBC Bank USA's main office is in McLean, Virginia, and its principal executive offices are located at 452 Fifth Avenue, New York, New York. Its domestic operations are located primarily in New York State.

In 2005, HSBC USA incorporated a nationally chartered limited purpose bank subsidiary, HSBC Trust Company (Delaware), National Association (HTCD). HTCD's charter includes the following primary activities:

Custodian of investment securities for other HSBC affiliates;

Personal trust services; and

Originator of refund anticipation loans and checks in support of taxpayer financial services business lines.

The operations of HTCD had an immaterial impact on HSBC USA's consolidated balance sheets and results of operations for the years ended December 31, 2009 and 2008.

In 2006, HSBC USA formed HSBC National Bank USA (HBMD), a national banking association established to support HSBC USA's retail branch expansion strategy. HBMD was merged with and into HSBC Bank USA in December 2008, at which time HSBC Bank USA relocated its main office to McLean, Virginia. The operations of HBMD had an immaterial impact on HSBC USA's consolidated balance sheet and results of operations for the years ended December 31, 2008 and 2007.

Income Before Income Tax Expense – Significant Trends Income before income tax expense, and various trends and activity affecting operations, are summarized in the following table.

Year Ended December 31,	2009	2008	2007
	(in millions)		
Income (Loss) before income tax from prior year	\$ (2,608)	\$ 137	\$ 1,566
Increase (decrease) in income before income tax expense attributable to:			
Balance sheet management activities ⁽¹⁾	676	127	(70)
Trading related activities ⁽²⁾	2,905	(2,387)	(606)
Credit card fees ⁽³⁾	477	62	237
Loans held for sale ⁽⁴⁾	263	(9)	(512)
Residential mortgage banking related revenue ⁽⁵⁾	183	(85)	(22)
Gain (loss) on own debt designated at fair value and related derivatives ⁽⁶⁾	(1,164)	670	-
Gain (loss) on instruments designated at fair value and related derivatives, excluding own debt ⁽⁶⁾	625	(384)	-
Provision for credit losses ⁽⁷⁾	(1,601)	(1,021)	(699)
Goodwill impairment loss ⁽⁸⁾	-	(54)	-
All other activity ⁽⁹⁾	18	336	243
	2,382	(2,745)	(1,429)

Income (Loss) before income tax for current year \$ (226) \$ (2,608) \$ 137

- (1) Balance sheet management activities are comprised primarily of net interest income and, to a lesser extent, gains on sales of investments, resulting from management of interest rate risk associated with the repricing characteristics of balance sheet assets and liabilities. For additional discussion regarding Global Banking and Markets net interest income, trading revenues, and the Global Banking and Markets business segment see the caption **Business Segments** in the Management's Discussion and Analysis of Financial Condition and Results of Operations (**MD&A**) section of this Form 10-K.
- (2) For additional discussion regarding trading revenue (loss), see the caption **Results of Operations** in the MD&A section of this Form 10-K.
- (3) For additional discussion regarding credit card fees, see the caption **Results of Operations** in the MD&A section of this Form 10-K.
- (4) For additional discussion regarding loans, see the caption **Balance Sheet Review** in the MD&A section of this Form 10-K.

Table of Contents

HSBC USA Inc.

- (5) For additional discussion regarding residential mortgage banking revenue, see the caption Results of Operations in the MD&A section of this Form 10-K.
- (6) For additional discussion regarding fair value option and fair value measurement, see Note 17 Fair Value Option, in the accompanying consolidated financial statements.
- (7) For additional discussion regarding provision for credit losses, see the caption Results of Operation in the MD&A section of this Form 10-K.
- (8) For additional discussion regarding goodwill impairment, see Note 12, Goodwill, in the accompanying consolidated financial statements.
- (9) Represents other core banking activities.

Funding

We fund our operations using a combination of consumer and commercial deposits, issuing short-term and long-term debt, borrowing under secured financing facilities, issuing preferred equity, selling liquid assets and, as necessary, receiving capital contributions from our immediate parent, HSBC North America Inc. (HNAI). Our continued success is primarily dependent upon our ability to attract and retain deposits. Emphasis is placed on maintaining stability in core deposit balances. Numerous factors, both internal and external, may impact our access to, and the costs associated with, both retail and wholesale sources of funding. These factors may include our debt ratings, overall economic conditions, overall capital markets volatility, the counterparty credit limits of investors to the HSBC Group and the effectiveness of our management of the credit risks inherent in our business and customer base.

In 2009, our primary sources of funds were deposits, issuances of commercial paper and term debt, certain secured financings and receipt of capital contributions from our parent, HNAI. As a result of the systemic reduction in available liquidity in the market, we took steps to reduce our reliance on debt capital markets and increase deposits. While we raised \$3.6 billion of new term funding at various points during 2009, after adjusting for paydowns associated with the \$6.1 billion of debt acquired in connection with the credit card purchases from our affiliate in 2009, we retired long-term debt of \$9.5 billion in 2009. In the latter part of 2008, we grew deposits in anticipation of asset purchases from our affiliates, and December 31, 2008 balances also benefited from customers moving funds to larger, well-capitalized institutions. As a result, both core and overall deposit balances increased in 2008, in both absolute terms and in proportion to total liabilities. In 2009, we managed our overall balance sheet downward and, as a result, deposits decreased slightly to \$118.3 billion at December 31, 2009 from \$119.0 billion at December 31, 2008. In 2009, we received capital contributions from HNAI totaling \$2.2 billion which we used to support ongoing operations and to maintain capital at levels we believe are prudent in the current market conditions, including \$1.1 billion to provide capital support for the receivables purchased from HSBC Finance in January 2009.

A detailed description of our sources and availability of funding are set forth in the Liquidity and Capital Resources and Off Balance Sheet Arrangements sections of the MD&A.

We use the cash generated by these financing activities to service our debt obligations, to originate and purchase new loans, to purchase investment securities and to pay dividends to our preferred shareholders and, as available and appropriate, to our parent.

Our long-term debt, preferred stock and commercial paper have been assigned investment grade ratings by all nationally recognized statistical rating organizations. For a detailed listing of the ratings that have been assigned to HSBC USA at December 31, 2009, see the Liquidity and Capital Resources section of the MD&A.

Employees and Customers

At December 31, 2009, we had approximately 12,000 employees. Effective as of January 1, 2010, we had approximately 11,000 employees as a result of the transfer of certain staff function employees to HTSU which provides shared, allocated support services to all HSBC North America subsidiaries, including HUSI.

At December 31, 2009, we had over 4 million customers, some of which are customers of more than one of our businesses. Customers in the state of New York accounted for 31 percent of our outstanding loans.

Table of Contents

HSBC USA Inc.

Operations

We have five reportable segments: Personal Financial Services (PFS), Consumer Finance (CF), Commercial Banking (CMB), Global Banking and Markets and Private Banking (PB). Our segments are managed separately and are based upon customer groupings as well as products and services offered. Adjustments made at the corporate level for fair value option accounting related to certain debt issued and, in prior years, an equity investment in HSBC Private Bank (Suisse) S.A. are included under the Other caption within our segment disclosure.

Corporate goals and individual goals of executives are currently calculated in accordance with International Financial Reporting Standards (IFRSs) under which HSBC prepares its consolidated financial statements. As a result, operating results are monitored and reviewed, trends are evaluated and decisions about allocating resources, such as employees, are made almost exclusively on an IFRS basis (a non-U.S. GAAP financial measure). Accordingly, in accordance with applicable accounting standards, our segment reporting is on an IFRS basis. However, we continue to monitor capital adequacy, establish dividend policy and report to regulatory agencies on a U.S. GAAP basis. For additional financial information relating to our businesses and operating segments and a summary of the significant differences between U.S. GAAP and IFRSs as they impact our results, see Note 24, Business Segments, in the accompanying consolidated financial statements.

Personal Financial Services Segment Through its 479 branches, on-line and phone services, PFS provides a broad range of financial products and services directed towards the expansion of our core retail banking business, including revolving term loans, MasterCard¹ and Visa² credit card loans, deposits, branch services and financial planning products and services such as mutual funds, investments and insurance. Our lead proposition is HSBC Premier, a premium relationship banking service designed for the internationally minded mass affluent consumer. Premier enables customers to access all their local and international accounts from a single on-line view and provides free international funds transfers between these accounts. The Premier service is delivered by a personal Premier relationship manager, supported by a 24-hour priority telephone and internet service. Through our on-line banking business, we offer higher-yield savings, payment accounts and CDs. PFS also provides residential mortgage lending through our branch network. In 2008, we decided to discontinue residential mortgage loan originations through wholesale origination channels. Servicing is performed on a contractual basis for residential mortgage loans owned by HSBC Bank USA and by third parties.

Consumer Finance Segment The CF segment includes point of sale and other lending activities primarily to meet the financial needs of individuals. Specifically, operating activity within the CF segment relates to nonconforming residential mortgage loans, other consumer loans and private label credit card receivables purchased from HSBC Finance. As described herein, in January 2009 we purchased portfolios of credit card receivables originated under HSBC Finance's General Motors MasterCard program and Union Plus MasterCard and Visa credit card program, as well as certain auto finance receivables, from HSBC Finance. We will also purchase additional receivable originations generated under existing and future General Motors and Union Plus accounts. The CF segment also includes activities within these portfolios.

Commercial Banking Segment In support of HSBC's strategy to be the leader in international banking in target markets, CMB serves the growing number of U.S. companies that are increasingly in need of international banking and financial products and services. CMB offers comprehensive domestic and international services and banking, insurance and investment products to companies, government entities and non-profit organizations, with a particular emphasis on geographical collaboration to meet the banking needs of its international business customers. CMB provide loan and deposit products, payments and cash management services, merchant services, trade and supply

chain, corporate finance, global markets and risk advisory to small businesses and middle-market corporations, including specialized products such as real estate financing. CMB also offers various credit and trade

¹ MasterCard is a registered trademark of MasterCard International Incorporated (d/b/a MasterCard Worldwide).

² Visa is a registered trademark of Visa USA, Inc.

Table of Contents

HSBC USA Inc.

related products such as standby facilities, performance guarantees and acceptances. These products and services are offered through multiple delivery systems, including our branch banking network.

Global Banking and Markets Segment Global Banking and Markets is an emerging markets-led and financing-focused business that provides tailored financial solutions to major government, corporate and institutional clients worldwide. Managed as a global business, Global Banking and Markets clients are served by teams that bring together relationship managers and product specialists to develop financial solutions that meet individual client needs. To ensure that a comprehensive understanding of each client's financial requirements is developed, the Global Banking and Markets teams take a long-term relationship management approach.

Within client-focused business lines, Global Banking and Markets offers a full range of capabilities:

Investment banking and financing solutions for corporate and institutional clients, including corporate banking, investment banking, trade services, payments and cash management, and leveraged acquisition finance;

One of the largest markets businesses of its kind, with 24-hour coverage and knowledge of local markets and providing services in credit and rates, foreign exchange, money markets and securities services; and

Global asset management solutions for institutions, financial intermediaries and private investors worldwide.

Private Banking Segment PB provides private banking and trustee services to high net worth individuals and families with local and international needs. Accessing the most suitable products from the marketplace, PB works with its clients to offer both traditional and innovative ways to manage and preserve wealth while optimizing returns. PB offers a wide range of wealth management and specialist advisory services, including banking, liquidity management, investment services, custody services, tailored lending, wealth planning, trust and fiduciary services, insurance, family wealth and philanthropy advisory services. PB also works to ensure that its clients have access to other products and services, capabilities, resources and expertise available throughout HSBC, such as credit cards, investment banking and commercial real estate and middle market lending, to deliver services and solutions for all aspects of their wealth management needs.

Regulation and Competition

Regulation The statutory and regulatory framework governing our operations and that of our significant subsidiaries is described below. Congress has established this framework, applicable to bank holding companies, for the purpose of protecting depositors, the federal deposit insurance fund, consumers and the banking system as a whole. Applicable statutes, regulations or resulting policies could restrict our ability to diversify into other areas of financial services, acquire depository institutions or pay dividends on our capital stock. Banking rules and supervisors may also require us to provide financial support to one or more of our subsidiary banks, maintain capital balances in excess of those desired by management, and pay higher deposit insurance premiums as a result of a general deterioration in the financial condition of federally-insured depository institutions.

The U.S. Federal government and banking regulators continued their efforts to stabilize the U.S. economy in 2009. On June 17, 2009, the Administration unveiled its proposal for a sweeping overhaul of the financial regulatory system. The Financial Regulatory Reform proposals are comprehensive and include the creation of an inter-agency Financial Services Oversight Council to, among other things, identify emerging risks and advise the Board of Governors of the Federal Reserve System (the Federal Reserve Board) regarding institutions whose failure could pose a threat to financial stability; expand the Federal Reserve Board's powers to regulate these systemically-important institutions and

impose more stringent capital and risk management requirements; create a Consumer Financial Protection Agency (the CFPA) as a single primary Federal consumer protection supervisor, which will regulate credit, savings, payment and other consumer financial products and services and providers of those products and services; and impose comprehensive regulation of over-the-counter (OTC) derivatives markets, including credit default swaps, and prudent supervision of OTC derivatives dealers. In December 2009, the U.S. House of Representatives passed The Wall Street Reform and Consumer Protection Act, which addresses many

Table of Contents*HSBC USA Inc.*

of the Administration's proposed reforms. Similar legislation is under consideration by the U.S. Senate Committee on Banking, Housing, and Urban Affairs. On January 14, 2010, the Administration announced its intention to propose a Financial Crisis Responsibility Fee to be assessed against financial institutions with more than \$50 billion in consolidated assets for at least 10 years. On January 21, 2010, the Administration announced a proposal that would prohibit banks and financial institutions that own banks from owning, investing in or sponsoring a hedge fund or private equity fund and engaging in proprietary trading operations for their own account. The proposal would also place broader limits on growth in market share of liabilities at the largest financial institutions, which would supplement existing limits on market share of deposits. It is likely that some portion of the financial regulatory reform proposals will be adopted and enacted. The reforms may have a significant impact on the operations of financial institutions in the U.S., including us and our affiliates. However, it is not possible to assess the impact of financial regulatory reform until final legislation has been enacted and related regulations have been adopted.

Bank Holding Company Supervision As a bank holding company, we are subject to regulation under the Bank Holding Company Act of 1956, as amended (BHC Act), and to inspection, examination and supervision by its primary regulator, the Federal Reserve Board. We are also subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by the Securities and Exchange Commission (the SEC).

We have registered as a financial holding company pursuant to the BHC Act and, accordingly, may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature or incidental or complementary to activities that are financial in nature. Financial in nature activities include securities underwriting, dealing and market making, sponsoring mutual funds and investment companies, insurance underwriting and agency, merchant banking, and activities that the Federal Reserve Board, in consultation with the Secretary of the U.S. Treasury, determines from time to time to be financial in nature or incidental to such financial activity.

Complementary activities are activities that the Federal Reserve determines upon application to be complementary to a financial activity and do not pose a safety and soundness risk.

Because we are a financial holding company, if any of our subsidiary banks receives a rating under the Community Reinvestment Act of 1977, as amended (CRA), of less than satisfactory, we will be prohibited, until the rating is raised to satisfactory or better, from engaging in new activities or acquiring companies other than bank holding companies, banks, or savings associations, except that we could engage in new activities, or acquire companies engaged in activities that are closely related to banking under the BHC Act. In addition, should the Federal Reserve determine that any of our subsidiary banks are not well capitalized or well managed, we would be required to enter into an agreement with the Federal Reserve Board to comply with all applicable capital and management requirements (which may contain additional limitations or conditions). Until corrected, we would not be able to engage in any new activity or acquire companies engaged in activities that are not closely related to banking under the BHC Act without prior Federal Reserve Board approval. If we fail to correct any such condition within a prescribed period, the Federal Reserve Board could order us to divest our banking subsidiaries or, in the alternative, to cease engaging in activities other than those closely related to banking under the BHC Act. As of December 31, 2009, no known deficiencies exist, and we are not subject to limitations or penalties relative to its status as a financial holding company.

We are generally prohibited under the BHC Act from acquiring, directly or indirectly, ownership or control of more than 5 percent of any class of voting shares of, or substantially all the assets of, or exercising control over, any U.S. bank, bank holding company or many other types of depository institutions and/or their holding companies without the prior approval of the Federal Reserve and potentially other U.S. banking regulatory agencies.

The Gramm-Leach-Bliley Act of 1999 (GLB Act) and the regulations issued thereunder contain a number of other provisions that affect our operations and those of our subsidiary banks. One such provision contained detailed requirements relating to the financial privacy of consumers. In addition, the so-called push-out provisions of the GLB Act removed the blanket exemption from registration for securities activities conducted in banks (including HSBC Bank USA) under the Exchange Act of 1934, as amended. New rules have been published to implement these changes and, when effective, will allow banks to continue to avoid registration as a broker or dealer only if

Table of Contents*HSBC USA Inc.*

they conduct securities activities that fall within a set of defined exceptions. A narrowed dealer definition took effect in September 2003, and a narrowed broker definition takes effect for each bank on the first day of its fiscal year following September 30, 2008. Pursuant to the new regulations, certain securities activities currently conducted by HSBC Bank USA were restructured or transferred to one or more U.S.-registered broker-dealer affiliates effective January 1, 2009.

Our consumer lending businesses operate in a highly regulated environment. These businesses are subject to laws relating to consumer protection including, without limitation, fair lending, use of credit reports, privacy matters, and disclosure of credit terms and correction of billing errors. Local, state and national regulatory agencies continue efforts to address perceived problems within the mortgage lending and credit card industries through broad or targeted legislative or regulatory initiatives aimed at lenders' operations in consumer lending markets. There continues to be a significant amount of legislative activity, nationally, locally and at the state level, aimed at curbing certain lending practices.

On May 22, 2009, the Credit Card Accountability Responsibility and Disclosure Act of 2009 (the CARD Act) was signed into law with likely significant impact on the credit card industry. The CARD Act, which through Federal Reserve Board rulemaking becomes effective in three stages (i.e., August 2009, February 2010 and August 2010), primarily amends the Truth in Lending Act by adding a number of new substantive and disclosure requirements building upon the Regulation AA and Regulation Z requirements adopted by the Federal Reserve Board in January 2009 (the January 2009 rules). The February 2010 rulemaking implemented the majority of the CARD Act provisions which, among other things, restrict application of interest rate increases on new and existing balances, prescribe the manner in which payments in excess of the minimum payment may be allocated to amounts due and when penalty rates may be charged on past due balances, and require customers to opt-in to over limit fee assessments. Because many of the requirements of the January 2009 Regulation AA and Regulation Z rules are included in the February 2010 CARD Act rule, the Federal Reserve Board has issued notices withdrawing the January 2009 rules. The Federal Reserve is expected in the near term to promulgate rules that will interpret and implement the provisions of the CARD Act which take effect in August 2010. The August 2010 CARD Act rules will address the reasonableness and proportionality of penalty fees and charges and require that accounts subjected to prior interest rate increases be periodically re-evaluated for interest rate decreases. The CARD Act also requires other government agencies to conduct studies on interchange, debt cancellation agreements and credit insurance products and present reports to Congress on these topics. We are compliant with the provisions of the CARD Act that took effect in August 2009 and February 2010 and continue to make changes to processes and systems in order to comply with the remaining provisions of the CARD Act by the applicable August 2010 effective date. The CARD Act has required us to make changes to our business practices, and will likely require us and our competitors to manage risk differently than has historically been the case. Pricing, underwriting and product changes in response to the new legislation have either been implemented or are under analysis. We currently believe the implementation of these new rules will not have a material adverse impact to us as any impact would be limited to only a portion of the existing affected loan portfolio as the purchase price on future sales volume paid to HSBC Finance would be adjusted to fully reflect the new requirements.

Due to the turmoil in the mortgage lending markets, there has also been a significant amount of federal and state legislative and regulatory focus on this industry. Several regulators, legislators and other government bodies have promoted particular views of appropriate or model loan modification programs, suitable loan products and foreclosure and loss mitigation practices. We have developed a modification program that employs procedures that we believe are most responsive to our customers needs and continue to enhance and refine these practices as other programs are announced, and we evaluate the results of our customer assistance efforts.

Supervision of Bank Subsidiaries Our subsidiary national banks, HSBC Bank USA and HTCD, are subject to regulation and examination primarily by the Office of the Comptroller of the Currency (OCC), secondarily by the FDIC, and by the Federal Reserve. HSBC Bank USA and HTCD are 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, payment of dividends and numerous other matters.

Table of Contents*HSBC USA Inc.*

Federal law limits the extent to which HSBC Bank USA and HTCD may pay dividends to HSBC USA. The amount these banks may pay, without specific OCC approval, is limited to the lesser of the amounts calculated under a recent earnings test and an undivided profits test. Under the recent earnings test, a dividend may not be paid if the total of all dividends declared by a bank in any calendar year is in excess of the current year's net income combined with the retained net income of the two preceding years, unless the national bank obtains the approval of the OCC. Under the undivided profits test, a dividend may not be paid in excess of a bank's undivided profits. In addition, the OCC, the Federal Reserve Board, and the FDIC have authority to prohibit or to limit the payment of dividends by the banking organizations they supervise, including HSBC USA and HSBC Bank USA, if they would consider payment of such dividend to constitute an unsafe or unsound practice in light of the financial condition of the banking organization. HSBC Bank USA is also required to maintain reserves in the form of vault cash and deposits with the Federal Reserve Bank.

The Federal Reserve Act limits the extent to which HSBC Bank USA and HTCD may transfer funds or other items of value to HSBC USA or other affiliates in so-called covered transactions. Covered transactions include loans and other extensions of credit, investments and asset purchases, as well as certain other transactions involving the transfer of value from a subsidiary bank to an affiliate or for the benefit of an affiliate. Unless an exemption applies, or unless a specific waiver is granted by the Federal Reserve Board, covered transactions by a bank with a single affiliate are limited to 10 percent of the bank's capital and surplus and all covered transactions with affiliates in the aggregate, are limited to 20 percent of the bank's capital and surplus. Loans and extensions of credit to affiliates by a bank generally are required to be secured in specified amounts with specific types of collateral. All of a bank's transactions with its non-bank affiliates are also generally required to be on arm's length terms.

Federal Reserve Board policy states that a bank holding company such as HSBC USA, is expected to act as a source of financial and managerial strength to each of its subsidiary banks and, under appropriate circumstances, to commit resources to support each such subsidiary bank.

Regulatory Capital Requirements As a bank holding company, we are subject to regulatory capital requirements and guidelines imposed by the Federal Reserve Board, which are substantially similar to those imposed by the OCC and the FDIC on banks such as HSBC Bank USA and HTCD. A bank or bank holding company's failure to meet minimum capital requirements can result in certain mandatory actions and possibly additional discretionary actions by its regulators. Under current capital guidelines, a bank or a holding company's assets and certain specified off-balance sheet commitments and obligations are assigned to various risk categories. A bank or holding company's capital, in turn, is classified into one of three tiers. Tier 1 capital includes common equity, noncumulative p