
FINAL NOTICE

To: **HSBC Bank plc**

Of: **8 Canada Square
London
E14 5HQ**

Date: **14 December 2005**

TAKE NOTICE: The Financial Services Authority of 25 The North Colonnade, Canary Wharf, London E14 5HS ("the FSA") gives you final notice about a requirement to pay a financial penalty.

THE PENALTY

The FSA gave HSBC Bank plc ("HSBC") a Decision Notice on 7 December 2005 which notified HSBC that pursuant to section 206 of the Financial Services and Markets Act 2000 ("the Act"), the FSA had decided to impose a financial penalty of £100,000 on HSBC in respect of a breach of SUP 15.61R of the FSA Rules, namely the obligation to ensure that the transaction reports it provided to the FSA were accurate.

HSBC confirmed on 24 November 2005 that it will not be referring the matter to the Financial Services and Markets Tribunal.

Accordingly, for the reasons set out below and having agreed with HSBC the facts and matters relied on, the FSA imposes a financial penalty on HSBC in the amount of £100,000.

REASONS FOR THE ACTION

Background to transaction reporting

1. Two of the FSA's four regulatory objectives set out in the Act relate to maintaining confidence in the financial system and the reduction of financial crime. In order to assist it in satisfying these objectives, the FSA maintains a database of market transactions (referred to as SABRE) to monitor for market misconduct and related rule breaches.

2. The FSA's Handbook SUP 15.6.1R requires authorised firms to take reasonable steps to ensure that all information it gives to the FSA in accordance with a rule in any part of the Handbook is factually accurate and complete. The guidance provided at SUP 15.6.2G demonstrates that this rule is relevant to the FSA's transaction reporting requirements.
3. The FSA relies on authorised firms to make accurate and complete transaction reports. Inaccurate and incomplete transaction reporting by a firm may seriously hinder the FSA's ability to monitor the market effectively and therefore impact on the FSA's ability to maintain confidence in the financial system and reduce financial crime.

HSBC's transaction reporting failure

4. HSBC has a business division, HSBC Stockbroker Services ("HSS"), which is a retail stock broking service offered by HSBC to its private clients on an execution-only basis. HSS carries out transactions which are required to be reported in accordance with the Transaction Reporting Rules. HSBC has systems in place to make transaction reports to the FSA and it was aware that it was required to make transaction reports in relation to them.
5. In July 2005 the FSA requested certain trading information from HSBC. Following receipt of this information, the transaction report for the trade was reviewed on SABRE and it appeared that HSS had reported the transaction as a sale by the client prior to a positive announcement and a purchase after the announcement. Following discussions with HSBC, it became apparent that HSBC has been reporting transactions from the incorrect perspective, namely from the perspective of the client and not from the perspective of HSBC.
6. In all cases where HSBC made inaccurate reports through HSS they were reported from the incorrect perspective of the client. The inaccurate reports related to transactions predominantly in UK equities.
7. The inaccurate reports covered three separate business lines:
 - 7.1. Branch certificated share dealing;
 - 7.2. Branch non certificated share dealing, and
 - 7.3. InvestDirect.
8. The error in reporting in relation to paragraphs 7.1 and 7.2 above occurred when the firm's market access provider, HSBC Investment Bank plc ("HIB"), became a division of HSBC in December 2002. On the divisionalisation of HIB into HSBC it was recognised that this would impact on transaction reporting and steps were taken to amend HSBC's systems. The IT release correctly changed the agency marker to principal and customers' contracts notes were amended to reflect that trades were done by HSBC, as principal. However, the IT release failed to change the buy/sell indicator to reflect the transaction from the firm's perspective.
9. Transaction reports in relation to 7.1 and 7.2 above had been made from the client's rather than the firm's perspective between December 2002 and August 2005.

10. The error in relation to paragraph 7.3 occurred when Merrill Lynch HSBC Ltd (“MLHSBC”) became a division of HSBC in April 2003. On the divisionalisation of MLHSBC into HSBC it was recognised that this would impact on transaction reporting and steps were taken to amend HSBC's systems. The IT release correctly changed the agency marker to principal and customers’ contract notes were amended to reflect that the trades were done by HSBC, as principal. However, the IT release failed to change the buy/sell indicator to reflect the transaction from the firm's perspective.
11. Transaction reports in relation to paragraph 7.3 above had been made from the client's rather than the firm's perspective between April 2003 and August 2005.
12. In August 2005 HSBC confirmed to the FSA that remedial steps had been taken; monitoring of the accuracy of the transaction reports had been enhanced and that all transactions after 19 August 2005 would be reported from the correct perspective.

RELEVANT STATUTORY PROVISIONS

13. Section 206 of the Act authorises the FSA to impose a financial penalty if it considers that an authorised person has contravened a requirement imposed on him by or under the Act.
14. HSBC is an authorised person under the Act. From December 2002 to 19 August 2005, HSBC contravened the requirement imposed to ensure that all information provided to the FSA in accordance with the Transaction Reporting Rules is accurate.

RELEVANT GUIDANCE ON SANCTION

15. In deciding to take the action proposed, the FSA has had regard to guidance published in the Enforcement ("ENF") module of the FSA Handbook, and in particular:
 - 15.1. ENF 11, the FSA's general approach to discipline, and in ENF 11.4, the criteria for determining whether to take disciplinary action; and
 - 15.2. ENF 13, the FSA's approach to imposing a financial penalty.
16. The FSA will consider all the relevant circumstances of the breach when deciding whether to impose a sanction.

SANCTION

17. In all the circumstances, and having had particular regard to the factors set out in paragraphs 18 to 19 below, the FSA has concluded that the imposition on HSBC of a financial penalty of £100,000 is appropriate and proportionate.
18. In deciding to impose a financial penalty of £100,000 the FSA has taken into account the following factors:
 - 18.1 the period of time in which HSBC made inaccurate transaction reports and the number of transactions which were inaccurately reported; and

- 18.2. HSBC's failure to ensure that accuracy of the transaction reports could have impacted on the ability of the FSA to investigate irregular or unusual transactions which may have involved market misconduct.
19. The FSA has also taken into account the following mitigating factors in favour of HSBC:
 - 19.1. The FSA is satisfied that HSBC's failure was not deliberate or reckless;
 - 19.2. HSBC has taken steps to improve its systems and controls to ensure that going forward transaction reports are accurate; and
 - 19.3. HSBC is co-operating with the FSA to remedy its past transaction reporting failures.

DECISION MAKERS

19. The decision which gave rise to the obligation to give this Final Notice was made by the Executive Settlement Decision Makers on behalf of the FSA.

IMPORTANT

20. This Final Notice is given to HSBC in accordance with section 390 of the Act.

Manner of and time for Payment

21. The financial penalty must be paid in full by HSBC to the FSA by no later than 28 December 2005, 14 days from the date of the Final Notice.

If the financial penalty is not paid

22. If all or any of the financial penalty is outstanding on 29 December 2005, the FSA may recover the outstanding amount as a debt owed by HSBC and due to the FSA.

Publicity

23. Sections 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this notice relates. Under those provisions, the FSA must publish such information about the matter to which this notice relates as the FSA considers appropriate. The information may be published in such manner as the FSA considers appropriate. However, the FSA may not publish information if such publication would, in the opinion of the FSA, be unfair to you or prejudicial to the interests of consumers.
24. The FSA intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

Carlos Conceicao
Head of Wholesale - FSA Enforcement Division