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Rt Hon Andrew Tyrie MP
Chairman of the Treasury Committee
House of Commons
Committee Office
14 Tothill Street
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29 September 2015

Dear Mr Tyrie,

Thank you for your letter of 12 September 2015, which I received last week, about the payments incident on 28 August.

I want to be open about what went wrong and reiterate our commitment to putting things right quickly. This letter builds on the note sent on the day of the incident and the more detailed account in the letter of 8 September.

As confirmed in that letter, the incident wasn't an IT failure. It occurred because a Bacs (the UK electronic financial transaction processing system) file was generated for a sum greater than the system limit of £1 billion, causing it to be rejected. This was the first time in the 47 years we have used the Bacs system, that this has happened. We have changed our payment systems and procedures to make sure it will not be possible for this to happen in the future. We have also reviewed our governance procedures to further protect our customers.

While the mistake should not have happened, I am pleased that our contingency plans for a payments failure were successful.

In my earlier letter I outlined the root cause of the issue, our support and response to customers, and the steps we have taken further to strengthen our processes, particularly our communications with our customers. In answering your questions below, I've further addressed these issues.

Please do not hesitate to let me know if you have any further questions.

Yours sincerely,

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What was the first symptom of the problem?

Early on Friday 28 August, customers began calling us and other banks, alerting us to the fact that they had not received payments.

When was it first identified?

Shortly before 9.00am on Friday 28 August, we identified a Bacs file that had been rejected on Wednesday 26 August as the likely cause. At 9.00am our European Chief Operating Officer was briefed and by 9.15am the PRA, FCA and PSR had been contacted. We then convened an internal group, our Major Incident Group, to solve the issue. This group ran throughout the day and over the subsequent weekend.

How many of your customers were affected? What steps are you taking to ensure that customers are not put at a disadvantage by this, or subsequent IT failures, not least from unexpected overdraft charges? Will customers be compensated?

The file contained 275,000 payments. While the mistakes leading to the incident should not have happened in the first place, I am pleased that our contingency plans for a payments failure were successful. Payments were routed via alternative systems. All payments were made by HSBC the same day. There were a very small number of payments that did not reach their intended recipient until the following day. This was because some of the beneficiary banks were unable to process those payments the same day.

We wrote to apologise to all our customers who could have been inconvenienced. We contacted all the beneficiary banks to tell them of the problem so they could work with us to resolve any issue for their affected customers. We also set up dedicated ways for those who were impacted to contact us.

No overdraft charges were incurred by HSBC customers. We also worked with the other banks to follow our agreed approach, waiving any interest and charges non-HSBC customers incurred as a direct consequence of our mistake.

To date we have received a small number of complaints, 326 in total including 107 from non-customers. We have paid out £29,000 in ex-gratia compensation.

From the moment the fault occurred, how long did it take to (a) fix the underlying problem and then (b) clear the backlog of payments?

From the time when we became aware that payments were not being made, a fix to switch the vast majority of retail payments into same day credits was successfully made at 4.00pm and the backlog cleared at 8.16pm.

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Do you regard the time taken as acceptable? If not, what would be an acceptable time, and what have you done to ensure that future problems are fixed within this time?

From when we identified the problem, all payments were made in just over 11 hours. Switching payment file types is complex and had never been done on this scale before. Within a seven hour window we managed, created, tested and executed the remedial steps to ensure payments were not duplicated. This was done without causing disruption to business as usual. Considering the number of payments and scale of the remedial steps required we consider this time frame reasonable.

Our regulators have asked us to share this approach more broadly with our peers as best practice for file switching and recovery.

How confident are you that no similar failures will occur in the future, and why?

There is no likelihood of this exact issue reoccurring. Following a thorough major incident investigation, we have implemented IT and operational changes to prevent files which exceed BACS limit from being sent. We have also started a strategic review of other payment system types, on which we will continue to update our supervisors.

Have you considered alternative ways by which customers could obtain access to their money in the event of a future IT failure? If so, could we see a copy of the relevant internal report?

This was not an IT Incident. We have full business continuity plans for a series of possible scenarios.

Was the failure that occurred on August 28th on HSBC's corporate risk register? What other IT risks are on it, and what ratings have these risks been given?

Failure of IT infrastructure is on our risk register.

How will you prevent customers' credit scores being affected by the problems at your bank? Will you compensate for them if they were?

Given payments were made the same day, customers credit scores should not be impacted. Where a customer believes it might be, as a consequence of a returned cheque elsewhere, then we will address with that on a case by case basis.

What warning did you have of the potential for this problem to occur in the days leading up to 28 August? What warnings did you give the PRA and FCA about any potential problem? What was their response, and what advice did each give you?

There was no warning of the impact before the calls on the morning of 28 August. But there were opportunities to have prevented the issue occurring when the file was initially rejected late on Wednesday and as the files on Thursday were reconciled. These two aspects have been the focus of our Major Incident review. As noted earlier we alerted our regulators as soon as possible. Further updates were provided throughout the day, with the FCA leading on behalf of the other regulatory agencies. We also contacted HM Treasury and the Department of Business, Innovation and Skills to update HM Government on the issue.

Has the Bank assured itself that all other system limits that could lead to a payment failure have been identified? If so, how?

Were any other such limits identified during this assurance?

If so, will the Bank's systems be changed to ensure that any breach of any of these system limits will be detected and corrected before they can trigger a payment failure?

All system limits across all schemes are being reviewed as part of this process. We expect the review to finish at the end of 2015. Significant progress in this review has already been made, and so far nothing new or concerning has been found.