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REGISTRATION & DISCLOSURE

**NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT**

20060055677-01

TO: Department of Market Regulation
NASD

RE: HSBC Securities (USA) Inc.
BD No. 19585

Pursuant to Rule 9216 of the NASD Code of Procedure, HSBC Securities (USA) Inc. (the "firm" or "HSBC") submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described in Part II below. This AWC is submitted on the condition that, if accepted, NASD will not bring any future actions against the firm alleging violations based on the same factual findings.

The firm understands that:

1. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by NASD's Department of Market Regulation and the National Adjudicatory Council ("NAC") Review Subcommittee or Office of Disciplinary Affairs, pursuant to NASD Rule 9216;
2. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; and
3. If accepted:
 - a. this AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by the NASD or any other regulator against the firm;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about the firm's disciplinary record;
 - c. NASD may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-3; and
 - d. the firm may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. Nothing in this provision affects the firm's testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which the NASD is not a party.

The firm also understands that its experience in the securities industry and its disciplinary history may be factors that will be considered in deciding whether to accept this AWC.

The firm became a member of the Association in 1987, and its registration remains in effect. HSBC has the following relevant disciplinary history:

- In February 2007, NASD accepted HSBC's AWC (20060023706) in which the firm agreed to a censure, and a fine of \$10,000, \$7,500 of which was for failing to report the correct time of execution for TRACE-eligible securities and for failing to timely report transactions in TRACE-eligible securities, in violation of Marketplace Rules 6230(c)(8) and 6230(a), from April to June 2005. The firm also paid a fine of \$2,500 for violations of SEC Rule 17a-3 for failing to record the correct time of execution on orders in TRACE-eligible securities.
- In January 2007, NASD accepted HSBC's AWC (20060043371) in which the firm agreed to a censure and a fine of \$22,500, \$7,500 of which was for violations of Marketplace Rule 6130(d)(4) for failing to submit the time of execution for 1,733 trade reports submitted to the Nasdaq Market Center, and \$5,000 for deficient written supervisory procedures, from September to December 2005. The firm was also fined \$10,000 for failing to electronically file with NASD large options position reports, in violation of Conduct Rule 2860(b)(5), in January and February 2006.
- In January 2007, NASD accepted HSBC's AWC (20050001900) in which the firm agreed to a censure and a fine of \$17,500, \$7,500 of which was for failing to have in place adequate written supervisory procedures for its municipal bond trading department to help ensure compliance with rules concerning fair pricing and mark-ups/downs, in violation of MSRB Rule G-27, from April to June 2004.
- In October 2005, NASD accepted HSBC's AWC (20050000176) in which the firm agreed to a censure and a fine of \$8,000, \$3,000 of which was for OATS reporting violations and \$5,000 for failing to have in place adequate written supervisory procedures relating to compliance with OATS reporting obligations, in violation of NASD Conduct Rules 2110 and 3010, from April to June 2004.
- In August 2002, NASD accepted HSBC's AWC (CMS020140) in which the firm agreed to a censure and a fine of \$10,000, \$5,000 of which was for failing to have in place adequate written supervisory procedures relating to SEC Rule 11Ac1-1, NASD Conduct Rule 3320, and NASD Marketplace Rule 4613(b), from October through December 2000, in violation of NASD Conduct Rules 2110 and 3010.

I.

WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under the NASD's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against the firm;
- B. To be notified of the Formal Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the NAC and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the firm specifically and voluntarily waives any right to claim bias or prejudgment of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance, or rejection of this AWC.

The firm further specifically and voluntarily waives any right to claim that a person violated the *ex parte* prohibitions of Rule 9143 or the separation of functions prohibitions of Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

II.

ACCEPTANCE AND CONSENT

This matter is the result of the Department of Market Regulation's 2006 Trading and Market Making Surveillance Examination in review 20060055677, for which the on-site portion of the examination took place on July 17 - 21, 2006. Attached as Exhibit 1 is a list of the items the staff reviewed during the on-site examination for trade dates May 15 - 26, 2006. Unless otherwise noted, the violations described below occurred during May 15 - 26, 2006.

- A. The firm hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of NASD, or to which NASD is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by NASD:

1. The firm accepted six short sale orders in an equity security from another person, or effected a short sale in an equity security for its own account, without documenting that it borrowed the security, or entered into a *bona fide* arrangement to borrow the security, or that it had reasonable grounds to believe that the security could be borrowed so that it could be delivered on the date delivery is due. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 203(b)(1) of Regulation SHO.
2. The firm failed in 60 instances to correctly report sale transactions to ACT as long, short, or short exempt. The firm also failed in four instances to report the correct execution time. In one instance, the firm reported its capacity as principal when it was acting as agent. The conduct described in this paragraph constitutes separate and distinct violations of NASD Marketplace Rule 6130
3. The firm reported to OATS eight execution reports that contained inaccurate, incomplete, or improperly formatted data. Because of the inaccurate, missing, or improperly formatted data, the OATS system was unable to link the execution reports to the related trade reports in an NASD trade reporting system. These inaccurate and/or incomplete execution reports represented 16 percent of the sample of match-eligible execution reports reviewed in the TMMS examination that the firm transmitted during the review period. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).
4. The firm executed 91 short sale orders and failed to properly mark the order tickets as short for those orders. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 200(g) of Regulation SHO.
5. The firm failed to preserve for a period of not less than three years, the first two in an accessible place, the memorandum of 13 brokerage orders. In one instance, the firm failed to preserve for a period of not less than three years, the first two in an accessible place, a customer confirmation. The firm failed to show the time of receipt on the memorandum of one brokerage order. The conduct described in this paragraph constitutes a violation of SEC Rules 17a-3 and 17a-4 and NASD Conduct Rule 3110.
6. The firm failed in nine instances to disclose the correct capacity and in one instance to disclose average price on customer confirmations. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 10b-10.

7. In May 2006, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and NASD Rules, relating to compliance with order handling, best execution, anti-intimidation and coordination, sales transactions, books and records, and for monitoring use of the firm's other active MPID (HSBK). The firm's supervisory system did not include written supervisory procedures providing for: (1) identification of the persons responsible for supervision with respect to the applicable rules; (2) a statement of the supervisory steps to be taken by the identified persons; (3) a statement as to how often such persons should take such steps; and (4) a statement as to how the completion of the steps included in the written supervisory procedures should be documented. The conduct described in this paragraph constitutes a violation of NASD Conduct Rule 3010.

- B. The firm also consents to the imposition, at a maximum, of the following sanctions:

A censure and a total fine of \$27,500, comprised of the following fines:

\$ 5,000 for SEC Rules 200(g) and 203(b)(1) of Reg SHO;
\$ 2,500 for Marketplace Rule 6130;
\$ 5,000 for the OATS violation;
\$ 5,000 for SEC Rules 17a-3 and 17a-4 and Conduct Rule 3110;
\$ 2,500 for SEC Rule 10b-10; and
\$ 7,500 for deficient written supervisory procedures.

The sanctions imposed herein shall be effective on a date set by NASD.

III.

OTHER MATTERS

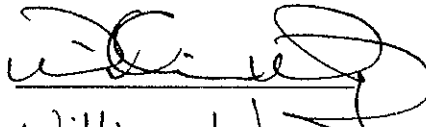
- A. The firm understands that it may attach a Corrective Action Statement to this AWC, which is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by NASD, nor does it reflect the views of NASD or its staff.
- B. The firm agrees to pay any monetary sanctions imposed on it upon notice that this AWC has been accepted and that such payments are due and payable, and has attached the Election of Payment form showing the method by which the firm proposes to pay any fine imposed.

- C. The firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

The firm certifies that it has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it, and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce the firm to submit it.

Respondent,
HSBC Securities (USA) Inc.

5/14/07
Date

By: 
Name: William Wong
Title: Chief Compliance Officer

Reviewed by:


Counsel for HSBC Securities (USA) Inc.

Accepted by NASD:

6/11/07
Date


Thomas R. Gira
Executive Vice President
Department of Market Regulation

Signed on behalf of the Director of ODA,
by delegated authority

Attachment:

Standard Election of Payment Form

HSBC Securities (USA) Inc.
2006 Trading and Market Making Examination
Matter No. 20060055677

NASD staff reviewed the following samples during the examination:

<u>Sample Size</u>	<u>Review Area</u>	<u>Sample Source</u>
609	customer and proprietary sale transactions, for compliance with SEC Rules 200(g) and 203(b)	from trade dates May 15 to May 26, 2006
398	customer and proprietary sales, for compliance with NASD Rule 6130	from trade dates May 15 to May 26, 2006
3	short sales in CQS securities, for compliance with SEC Rule 10a-1 (Tick Test)	from trade dates May 15 to May 26, 2006
23	cancelled trades for compliance with NASD Conduct Rule 3110 and Marketplace Rules 4632(g), 4642(g), 4652(g), 6420(f), and 6620(f), and SEC Rules 17a-3(a)(6) and (a)(7),	from trade dates May 15 to May 26, 2006
10	not held market orders, for compliance with NASD Conduct Rule 2320	from trade dates May 15 to May 26, 2006
10	open buy limit orders and stop sell limit orders in securities traded ex-dividend, for compliance with NASD Conduct Rule 3220	from trade dates May 15 to May 26, 2006
2	trades in NNM or SC securities reported with a “.PRP” modifier, for compliance with NASD Marketplace Rules 4632 and 2320	from trade dates May 15 to May 26, 2006
25	orders in securities for which the firm was a market center, for compliance with the order size/type classification requirements of SEC Rule 605	from trade dates May 15 to May 26, 2006
26 orders/ 4 buckets	security/size/order data statistics published on the firm’s monthly order execution report, for compliance with SEC Rule 605	From the report for May 2006.
N/A	data published on the firm’s quarterly order routing report, for compliance with SEC Rule 606	from the report including April through June, 2006.
7	persons engaged in the firm’s trading and market making activities, for compliance with NASD Registration Rules	from trading staff in May 2006.

<u>Sample Size</u>	<u>Review Area</u>	<u>Sample Source</u>
707	order/trade records prepared and maintained in connection with the above samples, for general compliance with NASD Conduct Rule 3110 and SEC Rules 17a-3 and 17a-4	from trade dates May 15 to May 26, 2006 and January 2006
690	trades reported to ACT or TRACS in connection with the above samples, for general compliance with NASD trade reporting and ACT Rules	from trade dates May 15 to May 26, 2006
34	customer trade confirmations reviewed in connection with the above samples, for compliance with SEC Rule 10b-10	from trade dates May 15 to May 26, 2006
50	orders in NNM or SC securities submitted to OATS, for compliance with NASD Rule 6955	from trade dates May 15 to May 26, 2006
N/A	the firm's establishment and implementation of "regular & rigorous" reviews of the execution quality of orders sent to other market centers and internalized, for compliance with NASD Rules 2320 and 3010	N/A
N/A	the firm's establishment and implementation of a supervisory system and written supervisory procedures, for compliance with NASD Conduct Rule 3010	Based on WSPs in effect during May 2006.