

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20070080688-01**

TO: Department of Market Regulation
Financial Industry Regulatory Authority ("FINRA")

RE: **KBC Financial Products USA, Inc., Respondent**
Broker-Dealer
CRD No. 46709

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, KBC Financial Products USA, Inc. ("KBFP" or the "firm") submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- 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 FINRA, or to which FINRA 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 FINRA:

BACKGROUND

KBFP has been a member of FINRA since September 20, 1999 and its registration remains in effect. The firm has the following relevant disciplinary history:

- On March 29, 2007, an AWC became final in which the firm was censured and fined \$10,000 for trade-reporting violations of NASD Rules 4632, 6130 and 6420.

SUMMARY

In connection with matter 20070080688, the staff of the Department of Market Regulation of FINRA (the "staff") conducted a review of the firm's reporting of transactions to the Trade Reporting and Compliance Engine ("TRACE") during the period October 1, 2006 through December 31, 2006 (the "initial review period") for compliance with the rules and regulations relating to corporate bond trade reporting.

In connection with matter 20070104339, the staff conducted a review of the firm's trade reporting of equity transactions during the period January 1, 2007 through April 30, 2007 (the "secondary review period"). The staff also reviewed the firm's supervisory system and written supervisory procedures with respect to such trade reporting.

FACTS AND VIOLATIVE CONDUCT

1. KBFP failed to report to TRACE 561 transactions in TRACE-eligible securities within 15 minutes of the time of execution. These late transactions constituted approximately eight percent of all transactions in TRACE-eligible securities that the firm was required to report to TRACE during the initial review period. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6230(a) and a pattern or practice of late reporting without exceptional circumstances in violation of NASD Rule 2110.
2. KBFP failed to accept or decline in the NASD/Nasdaq Trade Reporting Facility ("TRF") 260 transactions in Reportable Securities within 20 minutes after execution, representing approximately 56 percent of all transactions that the firm had an obligation to accept or decline as the OEID during the secondary review period. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6130(b) and a violation of NASD Rule 2110.
3. During the secondary review period, 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 the NASD Rules, concerning equity securities trade reporting. Specifically, the firm's supervisory system did not include written supervisory procedures providing for a statement as to how the completion of the supervisory step(s) included in those written supervisory procedures should be documented. The conduct described in this paragraph constitutes a violation of NASD Rules 2110 and 3010.

B. The firm also consents to the imposition of the following sanctions:

A censure and fines totaling \$27,500 (\$7,500 for the firm's TRACE-reporting violations, \$15,000 for the firm's equity securities trade-reporting violations and \$5,000 for the related supervisory violation).¹

The firm agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. The firm has submitted an Election of Payment form showing the method by which it proposes to pay the fines imposed.

¹ No undertaking to revise the firm's written supervisory procedures with respect to the area described in paragraph I.A.3 is being imposed because the firm has provided written assurance that such revisions have already been made.

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

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

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against the firm;
- B. To be notified of the 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 National Adjudicatory Council ("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 FINRA Rule 9143 or the separation of functions prohibitions of FINRA 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.

III.

OTHER MATTERS

The firm understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; and
- C. If accepted:
 - 1. this AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the firm;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the firm's disciplinary records;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. 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. The firm may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the firm's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. The firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The firm 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 FINRA, nor does it reflect the views of FINRA or its staff.

The undersigned, on behalf of the firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the firm to submit it.

7/24/09
Date

Respondent
KBC Financial Products USA, Inc.

By: [Signature]

Name: Stephen P. King

Title: Executive Vice President +

Chief Compliance Officer

Reviewed by:

[Signature]

Paul R. Eckert, Esq.
Wilmer Cutler Pickering Hale and Dorr LLP
1875 Pennsylvania Avenue, NW
Washington, DC 20006
Counsel for Respondent

Accepted by FINRA:

8/14/09
Date

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

Thomas R. Gira
Thomas R. Gira
Executive Vice President
Department of Market Regulation