

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2008013863801**

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

RE: HSBC Securities (USA) Inc., Respondent
Member Firm
BD No. 19585

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent 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. Respondent 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

HSBC Securities (USA) Inc. ("HSBC" or the "Firm") has been a registered broker-dealer and a member of FINRA (f/k/a National Association of Securities Dealers or NASD) since July 1987. HSBC is a full service brokerage firm headquartered in New York, New York and has approximately 495 active branches and 2,880 registered representatives.

RELEVANT PRIOR DISCIPLINARY HISTORY

On September 13, 2007, NYSE issued a Hearing Panel Decision in which it found HSBC: (1) Violated NYSE Rule 476(a)(6) for engaging in conduct inconsistent with just and equitable principles of trade by: (a) recommending and selling LIBOR CDs to customers for whom such products were unsuitable; (b) failing to accurately advise customers about the risks associated with the LIBOR CDs; and/or (c) making material misrepresentations regarding certain material features of the LIBOR CDs and/or the manner in which the products were likely to perform; (2) Violated NYSE Rule 401(a) by failing to adhere to principles of good business practice by recommending and selling the LIBOR CD products to clients for whom they were not suitable; (3) Violated NYSE

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Rule 342(a) and (b) by: (a) failing to establish and maintain appropriate procedures to reasonably supervise whether the sale of callable LIBOR CDs was suitable for its customers, and (b) failing to adequately supervise its personnel in order to reasonably detect and prevent misrepresentations regarding material features of LIBOR CDs and/or the manner in which they were likely to perform. The Decision was issued in accordance with a Stipulation of Facts and Consent to Penalty entered between HSBC and the Exchange's Division of Enforcement in which HSBC neither admitted nor denied guilt but consented to the findings of violation and an imposition of the sanction of a censure, \$500,000 fine, an undertaking requiring the Firm to review the purchases of the outstanding LIBOR CDs (that existed as of June 1, 2007), and offer a remediation plan reviewed and approved by NYSE Enforcement.

On December 15, 2004, NYSE issued a Hearing Panel Decision in which it found HSBC: (1) Violated Exchange Rule 440 and SEC Rule 240.17a-4(b)(4) by failing to preserve for a period of three years electronic communications relating to the business of the Firm; (2) Violated Exchange Rule 342(a) and (b) in that the Firm failed to reasonably supervise and control its operational and technological activities, and failed to establish a separate system of follow-up and review to assure compliance with Exchange and federal securities laws governing retention of electronic communications; (3) Violated Exchange Rule 351 in that the Firm did not promptly report to the Exchange that it had violated provisions of the federal securities laws and Exchange rules by failing to retain electronic communications as required. The Decision was issued in accordance with a Stipulation of Facts and Consent to Penalty entered between HSBC and the Exchange's Division of Enforcement in which HSBC neither admitted nor denied guilt but consented to the findings of violation and an imposition of the sanction of a censure and a \$500,000 fine.

OVERVIEW

During the period from May 31, 2006 through February 28, 2008 ("the relevant period"), except as otherwise noted, HSBC violated NASD, FINRA, and MSRB Rules by:

- (1) making negligent misrepresentations and omissions of material facts to customers concerning the safety and liquidity of auction rate securities ("ARS");
- (2) using advertising and marketing materials that were not fair and balanced and did not provide a sound basis for evaluating the facts about purchasing ARS;
- (3) selling restricted, and therefore unsuitable, ARS to certain non-qualified customers;
- (4) failing to retain certain emails from May 2004 to April 2009, and failing to retain certain internal instant messages from February 2007 to September 2008; and
- (5) failing to maintain adequate supervisory procedures concerning its sales and marketing activities regarding ARS, as required by NASD and MSRB rules and its retention of certain email and internal instant messages.

As of December 2007, it had become apparent to the Firm that the credit markets were deteriorating, and that there was increased investment risks in ARS. Nevertheless, despite inadequate efforts by the Firm, HSBC registered representatives continued to recommend the purchase of ARS to current and potential customers and represent ARS as liquid and safe investments without providing adequate notice of the increased risks of owning ARS. These negligent misrepresentations and omissions of material fact violated NASD Rule 2110 by reason of violating Section 17(a)(2) of the Securities Act of

1933. HSBC also violated MSRB Rule G-17 by making these negligent misrepresentations and omissions of material fact.

During the relevant period, HSBC used advertising and marketing materials for ARS that were not fair and balanced and did not provide a sound basis for evaluating the facts about purchasing ARS. Among other things, the materials did not contain adequate disclosure of the risks of ARS, including the risks that ARS auctions could fail, that investments in ARS could become illiquid, and that customers might be unable to obtain access to funds invested in ARS for substantial periods of time. The materials thus violated NASD Rules 2210 and 2110 and MSRB Rule G-21.

Prior to February 2008, HSBC sold unregistered ARS to customers who were not qualified pursuant to Rule 144A to purchase the securities. The sales of these unregistered securities were also unsuitable for these customers. By selling unregistered securities, HSBC violated NASD Rule 2110 by reason of violating Section 5 of the Securities Act of 1933. By selling unsuitable securities, HSBC violated NASD Rules 2310 and 2110.

From May 2004 until April 2009, HSBC failed to retain certain email sent from company-issued Blackberry devices to email addresses that were not part of HSBC's email system. From February 2007 until September 2008, HSBC also failed to retain internal instant messages sent by HSBC associated persons on an HSBC maintained system. HSBC therefore violated Securities Exchange Act Rule 17a-4 and NASD Rules 3110 and 2110 and FINRA Rule 2010.

HSBC also failed to establish and maintain an adequate supervisory system, including written supervisory procedures relating to the marketing and sales of ARS that were reasonably designed to achieve compliance with NASD and MSRB rules. For instance, HSBC failed to maintain policies and procedures that were reasonably designed to achieve compliance with NASD rules that require registered representatives to: (a) accurately describe ARS to customers and (b) provide customers with full disclosure of the risks of ARS investments. HSBC also failed to provide adequate training to registered representatives regarding the features and characteristics of ARS, especially those affecting liquidity. Finally, HSBC also failed to establish adequate procedures to retain all email and instant messages as required under federal and NASD rules. Based on these supervisory failures, HSBC violated NASD Rules 3010 and 2110 and MSRB Rules G-27 and G-17.

As described below, as of July 2008, HSBC repurchased more than 90 percent of its then current customers' ARS holdings and in October 2008 offered to repurchase all of the remaining ARS held in those customers' HSBC accounts.

FACTS AND VIOLATIVE CONDUCT

Background: Auction Rate Securities

ARS are long-term securities with interest rates or dividend yields that are reset periodically through an auction process.¹ Historically, ARS were held mainly by institutional investors, but by 2007, a retail market developed for these securities, with a typical minimum investment of \$25,000. Although the maturity periods of ARS range from five years to 30 years or more for debt obligations and no stated maturity for closed-end fund preferred shares, auctions provide the primary source of liquidity for ARS investors and typically occur every 7, 14, 28 or 35 days.

ARS can become illiquid when an auction fails. ARS auctions fail when the supply of ARS being auctioned exceeds the demand for the securities in that auction. When an ARS auction fails, investors receive a penalty interest rate or dividend until the next auction but are unable to sell their securities at that time. As a result, ARS may not be appropriate for investors who have a short-term need for the funds they are investing.

Securities firms play different roles in the ARS market. An Underwriter brings the ARS to market as an intermediary for the issuer of the security. An Auction Agent, which can be a bank, conducts the ARS auction by collecting orders from broker-dealers, determines the "clearing rate," the highest rate accepted in the auction that becomes the interest or dividend rate that applies until the next auction, and calculates the allocation of the securities among Auction Dealers. An Auction Dealer or Remarketing Agent is a broker-dealer that solicits bids for the securities from their customers, submits them to the Auction Agent and usually receives a fee paid by the issuer. Firms acting in these capacities are sometimes known as "upstream" firms. In the past, certain upstream firms placed bids for ARS for their proprietary accounts in order to, among other things, support the auctions and prevent them from failing.

In contrast to upstream firms, firms sometimes known as "downstream" firms do not act as agents for issuers in any capacity. Instead, downstream firms act in the traditional broker role as agents for their customers and place bids with Auction Dealers and Remarketing Agents on the customers' behalf to purchase and sell ARS. Downstream firms are paid fees by Auction Dealers and Remarketing Agents (which may vary by dealer and type of security) for effecting trades in ARS held in dealers' inventories.

Beginning in May 2006, the Securities and Exchange Commission brought a series of enforcement actions against underwriters, auction dealers and auction agents in the ARS market.² During the summer of 2007, ARS began to fail, and by February 2008,

¹ The primary types of ARS are municipal bonds, student loan-backed auction rate certificates issued by trusts that hold student loans, and preferred shares issued by closed-end funds and collateralized by the assets in the funds.

² See Bear Stearns & Co., Inc.; Citigroup Global Markets, Inc.; Goldman Sachs & Co.; J.P. Morgan Securities, Inc.; Lehman Brothers Inc.; Merrill, Lynch Pierce, Fenner & Smith Inc.; Morgan Stanley & Co. Inc. and Morgan Stanley DW Inc.; RBC Dain Rauscher Inc.; Banc of America Securities LLC; A.G. Edwards & Sons, Inc.; Morgan Keegan & Co., Inc.; Piper Jaffray & Co.; Suntrust Capital Markets Inc.; and Wachovia Capital Markets, LLC (Securities Act of 1933, Release No. 53888, May 31, 2006); Deutsche Bank Trust Company Americas, the Bank of New York, and Wilmington Trust Co. (Securities Act of 1933, Release No. 8767, January 9, 2007);

ARS auctions failed on a widespread basis, causing the ARS markets to "freeze." Many of those failures have continued until the present time, notwithstanding that certain ARS issuers redeemed particular ARS in the period since the widespread failures. Nevertheless, many investors, including those who need access to their funds, continue to be unable to sell their ARS holdings.

ARS ACTIVITIES BY HSBC

During the relevant period, HSBC acted primarily as a "downstream" reseller of ARS and sold in excess of one billion dollars (\$1,000,000,000) of student loan, municipal, and preferred ARS to its customers. As of February 28, 2008, approximately \$920,625,000 of ARS was held in approximately 1,400 retail accounts at HSBC.

Although it acted primarily as a downstream firm, HSBC also underwrote one institutional ARS issue (that did not fail at auction) and also had direct bidding rights and entered supporting bids for a limited number of institutional ARS auctions. It stopped entering supporting bids prior to the widespread auction failures in February 2008.

HSBC also maintained a proprietary position in ARS that was in excess of \$1 billion as of spring 2007. Based on several factors, including personnel issues and Firm-wide mandates to reduce capital usage, HSBC began reducing its ARS investment in the spring of 2007. By the fall of 2007, HSBC was aware that a portion of its institutional ARS holdings (in AMBAC-insured ARS) had frozen due to failed private auctions, that other private ARS auctions had failed in August 2007, and that general credit market conditions had deteriorated. In October 2007, a senior HSBC official, in discussing the Firm's investment strategy for ARS going forward, opined, "[t]here are several business [sic] with limited profits that should be eliminated. These are the Auction Rate Securities (ARS), Odd Lot Trading, CP [commercial paper] business. ARS & CP have limited P/L, but asymmetrical risk to the downside as evidenced by recent credit turmoil." HSBC thereafter determined to exit the ARS (and other) markets for its proprietary account and had reduced its proprietary ARS investment to \$150 million by January 31, 2008, prior to widespread auction failures in February 2008.

VIOLATIONS

***HSBC Made Negligent Misrepresentations and Omissions of Material Facts
to Investors Relating to ARS:
NASD Rule 2110 by reason of violating Section 17(a)(2)
of the Securities Act of 1933 and MSRB Rule G-17***

Section 17(a)(2) of the Securities Act of 1933 makes it unlawful "for any person in the offer or sale of any securities ...by the use of any means or instruments of transportation or communication in interstate commerce or by use of the mails, directly or indirectly- ...to obtain money or property by means of any untrue statement of a material fact or

Citigroup Global Markets, Inc., successor by merger to Legg Mason Wood Walker Inc. (Securities Exchange Act of 1934, Release No. 55712, May 7, 2007); and First Southwest Company (Securities Exchange Act of 1934, Release No. 57869, May 27, 2008).

any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading..."

A violation of Section 17(a)(2) of the Securities Act of 1933 in the sale of ARS, including municipal securities, constitutes a violation of NASD Rule 2110 and MSRB Rule G-17.

During the relevant period, HSBC retail brokers recommended and sold ARS to customers, representing that the securities were liquid and safe investments. HSBC retail brokers continued to represent the liquid and safe nature of the investments even after it had become apparent to the Firm as of December 2007 that there was increased investment risk in ARS.

On December 19, 2007, in a conference call with HSBC brokers, a fixed income desk manager and a sales manager continued to suggest that brokers recommend ARS to retail customers, describing the "spike" in yields on ARS at the time as "very advantageous" to customers. While noting "never say never" to the possibility of a failed auction, the managers indicated that they did not believe problems in the credit markets would affect ARS, and also characterized the more recent increases in inventory and yield as due to typical year-end activities by corporations to sell off positions, and unrelated to the underlying credit quality of ARS.

After the conference call, a broker recommended to one of the managers that brokers should inform clients about the possibility and consequences of a failed auction for ARS stating, "If there is ever a further credit problem and it spills over to these securities it will be a nightmare..." The next day, the Firm's ARS trading desk employee unsuccessfully sought the same manager's permission to send an email to the Firm's brokers concerning the heightened risk of owning ARS, noting that "[w]hile we are watching for signs of failed auctions, at this turbulent time in the market anything is possible" and that "massive sell-offs cause failed auctions. This is a worst case, but possible scenario."

Certain measures the Firm took in January 2008 to have its brokers keep their clients informed of changing market conditions relating to ARS did not adequately inform brokers and customers to whom they recommended ARS of the increased risk of ARS auction failures. Rather, the Firm's retail brokers continued to recommend ARS as safe and liquid investments and failed to adequately notify customers of these increased risks. Accordingly, HSBC violated NASD Rule 2110 by reason of violating Section 17(a)(2) of the Securities Act of 1933, and MSRB Rule G-17.

***HSBC's Communications with the Public Failed to
Adequately Disclose the Risk of ARS:
NASD Rules 2210 and 2110 and MSRB Rules G-21 and G-17***

NASD Rule 2210(d)(1)(A) requires that:

All member communications with the public shall be based on principles of fair dealing and good faith, must be fair and balanced, and must provide a sound basis for evaluating the facts in regard to any particular security or type of security, industry or service.

HSBC violated NASD Rule 2210 and MSRB Rule G-21 by using materials with customers and prospective customers that were not fair and balanced and did not provide a sound basis for evaluating the facts in regard to purchases of ARS.

Among other things, the materials used by HSBC failed to disclose adequately the risks of investing in ARS. The materials did not adequately disclose the consequences of a failed auction -- that investments in ARS could become illiquid and that customers might be unable to obtain access to funds invested in ARS for substantial periods of time. The materials used by HSBC also made inappropriate comparisons between ARS and other materially different investments.

For example:

- An "Overview of Auction Rate Securities," dated September 2006, April 2007, and September 2007 failed to provide a sound basis for evaluating ARS. Specifically, the presentation failed to provide a basis for the rates cited, failed to disclose that the rates are subject to change, and failed to disclose that past performance was not indicative of future results. This presentation also contained oversimplified and incomplete comparisons between ARS and cash management or money market instruments.
- The September 2007 version of the "Overview of Auction Rate Securities" incorrectly informed customers that, "Broker-Dealers are required by the issuers to provide liquidity to the market." In fact, broker-dealers had no such obligation.
- A "Global Markets Weekly" distributed during the relevant period contained an oversimplified and incomplete comparison between ARS and cash management instruments.

Accordingly, HSBC violated NASD Rule 2210 and MSRB Rule G-21 and, as a result, also violated NASD Rule 2110 and MSRB Rule G-17.

***HSBC Engaged in an Unregistered Distribution of Securities and Recommended and Sold Unsuitable ARS:
NASD Rule 2110 by reason of violating Section 5 of the Securities Act of 1933, and
NASD Rules 2310 and 2110***

Section 5 of the Securities Act of 1933 prohibits the sale or delivery after sale of unregistered securities. Rule 144A of the Securities Act of 1933 permits the private resales of unregistered securities, but only under certain conditions and only to investors who meet the criteria as Qualified Institutional Buyers ("QIBs").

A violation of Section 5 of the Securities Act of 1933 by the sales of unregistered securities to a non-QIB constitutes a violation of NASD Rule 2110. Recommended sales of unregistered securities to non-QIBs represent the sale of unsuitable securities to customers.

Prior to February 2008, HSBC sold unregistered Rule 144A ARS to certain customers that were not QIBs.

Accordingly, HSBC violated NASD Rule 2110 by reason of violating Section 5 of the Securities Act of 1933, as well as NASD Rules 2310 and 2110.

***HSBC Failed to Retain Email and Internal Instant Messages:
Securities Exchange Act Rule 17a-4, NASD Rules 3110 and 2110,
and FINRA Rule 2010***

Securities Exchange Act Rule 17a-4(b)(4) requires:

Every member, broker and dealer subject to Rule 17a-3 shall preserve for a period of not less than three years, the first two years in an easily accessible place: ...[o]riginals of all communications received and copies or all communications sent ...by the member, broker or dealer (including inter-office memoranda and communications) relating to its business as such, including all communications which are subject to rules of a self-regulatory organization of which the member, broker or dealer is a member regarding communications with the public...

From May 2004 until April 2009, the Firm failed to retain certain email sent from company-issued Blackberry devices to email addresses that were not part of HSBC's email system.

From February 2007 until September 2008, HSBC also failed to retain internal instant messages sent by certain HSBC associated persons on an HSBC-maintained system.

Accordingly, HSBC violated Securities Exchange Act Rule 17a-4 and NASD Rules 3110 and 2110, and FINRA Rule 2010.

***HSBC Failed to Establish and Maintain Adequate Supervisory Procedures:
NASD Rules 3010 and 2110 and MSRB Rules G-27 and G-17***

NASD Rule 3010 requires each member firm to establish and maintain a system, including written procedures, to supervise the activities of its employees that is reasonably designed to achieve compliance with the federal securities laws and NASD rules.

MSRB Rule G-27 requires each broker, dealer and municipal securities dealer to supervise the conduct of its municipal securities activities to ensure compliance with MSRB rules and the federal securities laws, and requires each firm to establish and maintain a system, including written procedures, to supervise municipal securities activities that is reasonably designed to achieve compliance with the federal securities laws and MSRB rules.

HSBC violated NASD Rule 3010 and MSRB Rule G-27 by failing to establish and maintain procedures for the marketing and sale of ARS that were reasonably designed to achieve compliance with the federal securities laws and applicable NASD and MSRB rules. For instance, HSBC failed to maintain procedures reasonably designed to achieve compliance with NASD rules that require its registered representatives to accurately describe ARS to customers during sales presentations and that representatives provide customers with adequate disclosure of the risks of ARS,

including the risk that ARS auctions could fail and that investments in ARS could therefore become illiquid. HSBC also failed to provide adequate training to its registered representatives regarding the features and characteristics of ARS and the differences between ARS and other investments.

HSBC also failed to establish and maintain procedures that were reasonably designed to achieve compliance with NASD rules that require the written materials it used in connection with the marketing and sale of ARS to comply with the appropriate disclosure standards in NASD Rules 2210 and MSRB Rule G-21.

HSBC failed to have adequate systems in place to retain all instant messages and also failed to test adequately its system for retaining all electronic communications sent from Blackberry devices to parties outside of HSBC. HSBC therefore failed to establish and maintain procedures that were reasonably designed to achieve compliance with NASD rules that require its records retention systems be reasonably designed to retain all required communications.

Accordingly, HSBC violated NASD Rules 3010 and 2110 and MSRB Rules G-27 and G-17.

OTHER FACTORS

In determining the appropriate sanctions in this matter, FINRA has taken into account each of the following efforts by HSBC to provide remediation to customers who sustained harm as a result of their ARS holdings:

In February 2008, HSBC determined that certain customer accounts may have been sold unregistered ARS when the customers were not QIBs. HSBC repurchased approximately \$33 million of the ARS held by these customers.

Between February 2008 and June 30, 2008, HSBC received more than 70 customer complaints relating to its sale of ARS to retail customers. In March 2008, HSBC voluntarily set up a hardship committee to review customer requests for liquidity and complaints. Through this review process, between March and May 2008, HSBC repurchased approximately \$125 million in ARS from its customers.

On June 20, 2008, HSBC voluntarily commenced a buyback by sending letters to its then current customers who were holders of ARS as of June 17, 2008. The June 2008 buyback offer resulted in the Firm repurchasing \$352 million in ARS from these customers by the close of the offer in July 2008.

In October 2008, HSBC voluntarily offered to buy back ARS from all remaining customers who held ARS in Firm accounts as of June 17, 2008. HSBC repurchased approximately \$52 million in ARS from customers based on this offer.

In total, HSBC repurchased \$562 million of ARS from its customers in 2008, and each purchase was made at par.

In addition, HSBC has agreed to address the illiquidity sustained by former customers as

described below.

SANCTIONS

B. Respondent also consents to the imposition of the following sanctions:

1. A censure;
2. A fine in the amount of \$1,500,000.

Respondent agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

Buyback Offer

3. HSBC will offer to purchase at par ARS that are subject to auctions that have not been successful as of the date of this AWC and are not subject to current calls or redemptions ("Eligible ARS") from all investors in the Relevant Class, as described below, that have not previously had their ARS repurchased by HSBC as a result of its voluntary buybacks or other remedial efforts. For purposes of this AWC, the Relevant Class shall be comprised of all Individual Investors who purchased Eligible ARS from HSBC at any time between May 31, 2006 and February 28, 2008 into accounts maintained at HSBC. In addition to natural persons, the following entities will also be treated as Individual Investors:
 - a. Any account with the following beneficial owner:
 1. non-profit charitable organizations; and
 2. religious corporations or entities.
 - b. Any account with the following beneficial owner the value of which at the time of any ARS purchase made through HSBC did not exceed \$10 million:
 1. trusts;
 2. corporate trusts;
 3. corporations;
 4. Employee pension plans/ERISA and Taft Hartley Act plans;
 5. educational institutions;
 6. incorporated non-profit organizations;
 7. limited liability companies;
 8. limited partnerships;
 9. non-public companies;
 10. partnerships;
 11. personal holding companies; and

12. unincorporated associations.

4. No later than 30 days following the date this AWC is accepted by FINRA, HSBC will:
- a. Provide notice to those current customers in the Relevant Class who have rights under this AWC and make its best efforts to provide notice to former customers in the Relevant Class of the settlement terms set forth in this AWC. Such notice shall not be unacceptable to the FINRA staff;
 - b. Contemporaneously establish a dedicated telephone assistance line, with appropriate staff, to respond to questions from investors concerning the terms of the settlement; and
 - c. Commence the buyback of all Eligible ARS by written offer to the Relevant Class (the "Written Offer"). Investors will be given at least thirty (30) days from the date of the Written Offer letter to respond to the Written Offer. The buyback will be completed no later than sixty (60) days after the date of the Written Offer letter.
5. Commencing no later than six (6) months from the date the AWC in this matter is accepted by FINRA, HSBC shall make its best efforts to provide liquidity to all *other* investors not in the Relevant Class but who purchased Eligible ARS from HSBC between May 31, 2006 and February 28, 2008. Such best efforts, which may include, but are not limited to, offers to purchase Eligible ARS and/or offers of low or no-interest loans, extended on the basis of reasonable and customary credit standards, shall be completed no later than sixty (60) days following commencement of the best efforts.

Relief for Investors Who Sold Below Par

6. No later than the completion of the buyback, any investor in the Relevant Class that HSBC can reasonably identify who sold Eligible ARS below par between February 28, 2008 and the date of this AWC will be paid the difference between par and the price at which the investor sold the ARS.

Consequential Damages Claims

7. HSBC agrees to arbitrate claims for consequential damages filed by investors in the Relevant Class relating to Eligible ARS through a Special Arbitration Program (SAP) in accordance with rules set forth by FINRA Dispute Resolution under the authority of this AWC. Such rules have been issued and are available to HSBC and investors through FINRA's web site. No later than the date of the Written Offer letter, HSBC shall notify those investors in the Relevant Class who are eligible to seek consequential damages related to Eligible ARS under the SAP. This process is voluntary on the part of qualifying investors and does not preclude those investors who elect not to participate in the SAP from pursuing other available remedies. Arbitration under the SAP shall be conducted by a single public arbitrator, unless the claim for consequential damages is \$1,000,000 or greater, in which case, a panel of three public arbitrators may be appointed if both parties agree.

8. Any investors who choose to pursue such claims shall bear the burden of proving that they suffered consequential damages and that such damages were caused by investors' inability to access funds consisting of investors' ARS purchases through HSBC. HSBC shall be able to defend itself against such claims provided, however, solely for the purposes of the SAP, HSBC shall not contest liability related to the sale of ARS; and provided further that HSBC shall not be able to use as part of its defense an investor's decision not to sell ARS holdings prior to the acceptance of this AWC nor the investor's decision not to borrow money from HSBC if such loan facility was made available to ARS holders.

Reports Concerning Compliance with Settlement

9. HSBC shall provide FINRA with a report no later than thirty (30) days following the completion of the buyback setting forth (a) the names and account numbers of each ARS customer to whom the buyback offer was made, (b) an accounting of each instance in which such ARS customers accepted the buyback offer and sold ARS holdings to HSBC, and (c) the names, account numbers, and an accounting of those customers paid pursuant to paragraph 6 above. HSBC shall also notify FINRA within thirty (30) days of the completion of the best efforts undertaking set forth above in paragraph 5 of the nature and results of such efforts. The accuracy of such reports shall be certified by the Chief Compliance Officer of HSBC.

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

For good cause shown, and upon receipt of a timely written request from HSBC, FINRA staff may extend any of the dates set forth above.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent 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, Respondent 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.

Respondent 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

Respondent 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 Respondent'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 record;
 - 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 Respondent's right to take legal or factual positions in litigation or other legal

proceedings in which FINRA is not a party.

- D. Respondent may attach a Corrective Action Statement to this AWC that 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 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; has agreed to its 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.

3/29/10

Date

Christopher R. O'Donnell

HSBC Securities (USA), Inc.
Respondent

By: Christopher R. O'Donnell

[Name and title]

Chief Compliance Officer

Reviewed by:

Ben A. Indak

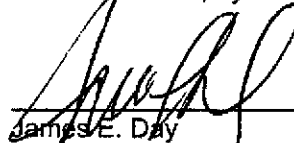
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Accepted by FINRA:

4/22/10
Date

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

A handwritten signature in black ink, appearing to read "James E. Day", is written over a horizontal line.

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