

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20130357166-01**

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

RE: HSBC Securities (USA) Inc., Respondent
Broker-Dealer
CRD No. 19585

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, HSBC Securities (USA) Inc. (the "firm" or "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 Respondent 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

The firm became a member of FINRA on July 25, 1987, and its registration remains in effect.

RELEVANT DISCIPLINARY HISTORY

On June 10, 2014, the firm finalized an AWC in which it was censured and fined \$150,000 for violating FINRA Rules 5210 and 2010 and NASD Rules 3010 and 2110 for the over-advertisement of trade volume which occurred during the period of February 22, 2010 through June 2, 2011.

SUMMARY

In matter 20130357166, the Market Quality Team of FINRA's Department of Market Regulation (the "staff") reviewed the firm's trade volume advertisements as transmitted to Bloomberg during the period of November 2009 through September 2014.

Bloomberg is a private service provider that allows certain subscribers, including broker-dealers, to advertise intra-day and historical trading volume in a particular security. Trade advertisements are used by buy-side traders as a pre-trade analytic to help them

determine which brokers have recently had access to the greatest amount of liquidity in a particular security and are, therefore, most likely to execute the contra side of their order with the minimum market impact. Sellside traders use trade advertisements as a way to measure their market share performance in comparison to their peers in a particular security or based on an aggregate level.

Trade advertisement data over longer periods can also be used by issuers to gauge which brokers are most likely to be interacting with clients that invest in their security, sector or type of security and are most likely to be in a position to help them access those clients to raise additional capital. Trade volumes advertised by each broker can, therefore, reflect the level of their natural client business in each security.

Participation by member firms in the Bloomberg service is voluntary. The advertisement of inaccurate trade volume violates NASD Rule 3310, IM-3310 and FINRA Rule 5210 which provides, in part, that "[n]o member shall publish or circulate, or cause to be published or circulated, any . . . advertisement, . . . or communication of any kind which purports to report any transaction as a purchase or sale of any security unless such member believes that such transaction was a bona fide purchase or sale of such security."

Based upon the investigation, the firm violated NASD Rule 3310, IM-3310, NASD Rule 3010 and FINRA Rules 5210 and 2010.

FACTS AND VIOLATIVE CONDUCT

1. Between November 2009 and September 2014, HSBC utilized an order management system ("OMS") which allowed the firm to designate certain accounts to automatically transmit trade volume to Bloomberg for advertisement. During that period, the firm opened a number of accounts with a default setting that resulted in certain trade activity being sent to Bloomberg twice for advertising.
2. The firm's programming error caused HSBC to over-advertise trade volume executed in at least thirty separate affected trading books during the relevant period.
3. The staff sampled HSBC's advertised trade volume and identified 34 securities where the trade volume transmitted to Bloomberg by HSBC for each of those securities substantially exceeded HSBC's executed trade volume. Specifically,
 - a. In ten instances, the firm over-advertised its executed volume by up to 50 percent;
 - b. In nine instances, the firm over-advertised its executed volume by 50 percent or more, but less than 100 percent; and
 - c. In fifteen instances, the firm over-advertised its executed volume by 100 percent or more.
4. In total, the firm's programming error with regard to the 34 securities sampled caused HSBC to over-advertise its executed trade volume by approximately 1,272,563 shares between November 2009 and September 2014.

5. In addition to the automatic transmission of trade volume to Bloomberg, many firms that advertise trade volume, including HSBC, utilize OMS platforms that give traders the ability to manually enter trade volume for advertising on Bloomberg.
6. Between August 2011 and December 2011, one of the firm's traders, BDR, manually entered trade volume in certain securities for advertising on Bloomberg. Those securities, however, were also being sent to Bloomberg for automatic advertising through the firm's OMS.
7. By virtue of BDR's erroneous manual advertisements, HSBC over-advertised its executed trade volume in 42 instances by approximately 7,923,300 shares. Specifically,
 - a. In 32 instances, the firm over-advertised its executed volume by up to 50 percent;
 - b. In seven instances, the firm over-advertised its executed volume by 50 percent or more, but less than 100 percent; and
 - c. In three instances, the firm over-advertised its executed volume by 100 percent or more.
8. The conduct described in the paragraphs above constitutes separate and distinct violations of NASD Rule 3310 and IM-3310 (for conduct that occurred before February 15, 2010), FINRA Rule 5210 (for conduct that occurred on or after February 15, 2010) and FINRA Rule 2010.
9. During the period of June 3, 2011 through September 30, 2014, 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 Rules of FINRA, concerning the advertisement of trade volume. Specifically, the firm's supervisory system did not include written supervisory procedures ("WSPs") providing for: (1) the identification of the person(s) responsible at the firm to ensure compliance with the applicable rules; (2) the step(s) that such person(s) should take to ensure compliance therewith; (3) how often such person(s) should take such step(s); and (4) how enforcement of such WSPs should be documented at the firm. The conduct described in this paragraph represents a violation of NASD Rule 3010 and FINRA Rule 2010.

OTHER FACTORS

Consistent with Regulatory Notice 08-70, "FINRA Provides Guidance Regarding Credit for Extraordinary Cooperation," dated November 2008, the mitigated monetary sanction in this matter reflects the firm's self-reporting of the over-advertising violations described in paragraphs 1 through 4.¹

¹ See Regulatory Notice 08-70.

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

A censure, a fine of \$575,000 and an undertaking to revise the firm's WSPs with respect to the area described in paragraph I.A.9. Within 30 business days of acceptance of this AWC by the National Adjudicatory Council ("NAC"), a registered principal of the Respondent shall submit to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850, a signed, dated letter, or an e-mail from a work-related account of the registered principal to MarketRegulationComp@finra.org, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its written supervisory procedures to address the deficiencies described in this paragraph; and, (3) the date the revised procedures were implemented.

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. It 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.

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

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 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 Chief Legal Officer, 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 Respondent; 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 accordance with FINRA Rule 8313;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. Respondent 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. Respondent 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: (i) testimonial obligations; or (ii) 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. 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.

12/22/2016
Date

Respondent
HSBC Securities (USA) Inc.

By: Michael H. Friedman

Name: Michael Friedman

Title: SVP Associate General Counsel

Reviewed by:

Attorney Name:
Counsel for Respondent
Firm Name:
Address:
City/State/Zip:
Phone Number:

Accepted by FINRA:

1/19/17
Date

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

Robert A. Marchman
Robert A. Marchman, Esq.
Executive Vice President
FINRA Department of Market Regulation