

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20130359634-01**

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

The firm has the following disciplinary history:

- On December 20, 2010, the firm finalized an AWC for violations of NASD Rule 6230(c)(6), NASD Rule 6230(b), and FINRA Rules 6730(a) and 2010 for conduct which occurred during the time periods of July 1, 2008 through September 30, 2008, and April 1, 2009 through June 30, 2009. The firm was censured and fined \$30,000 for the Trade Reporting and Compliance Engine ("TRACE") violations.
- On September 20, 2012, the firm finalized an AWC for violations of FINRA Rules 6760(b), 6730(a), and 2010 and NASD Rule 3010 for conduct which occurred during the time periods of October 1, 2009 through March 31, 2010 and April 1, 2010 through June 30, 2010. The firm was censured and fined \$70,000 which consisted of: (i) \$27,500 for violations of FINRA Rule 6760(b); (ii) \$5,000

for violations of FINRA Rule 2010 and NASD Rule 3010 in connection with the firm's supervisory obligations related to TRACE; and (iii) \$37,500 for violations of FINRA Rules 6730(a) and 2010.

- On May 28, 2013, the firm finalized an AWC for violations of FINRA Rules 6730, 6730(a), 6760 and 2010 for conduct which occurred during the time periods of July 1, 2010 through September 30, 2010, January 1, 2011 through March 31, 2011, May 10, 2011 through September 30, 2011 and October 1, 2011 through February 3, 2012. The firm was censured and fined \$75,000 for the TRACE violations.

SUMMARY

Matters 20130359634 and 20130378470 resulted from sweeps conducted by the TRACE Section of the Department of Market Regulation (the "staff") with respect to the firm's compliance with TRACE reporting rules during the periods of October 1, 2012 through December 31, 2012 (the "4Q12 review period") and April 1, 2013 through June 30, 2013 (the "2Q13 review period").

FACTS AND VIOLATIVE CONDUCT

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1. During the 4Q12 review period, the firm failed to report to TRACE 70 P1 transactions in TRACE-eligible Corporate Debt Securities within the time prescribed by FINRA rules. These transactions constituted 5 percent of the total number of P1 transactions in TRACE-eligible Corporate Debt Securities that the firm reported to TRACE during the review period (1,544). The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 6730(a) and a pattern or practice of late reporting without exceptional circumstances in violation of FINRA Rule 2010.
2. The firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to certain applicable securities laws and regulations, and/or the Rules of FINRA/NASD. At a minimum, adequate written supervisory procedures addressing quality of markets topics should describe the following:
 - (a) specific identification of the individual(s) responsible for supervision;
 - (b) the supervisory steps and reviews to be taken by the appropriate supervisor;
 - (c) the frequency of such reviews; and
 - (d) how such reviews shall be documented.

The firm's written supervisory procedures failed to provide for one or more of the four above-cited minimum requirements for adequate written supervisory procedures, in the following subject areas: Review for Timely Reporting of TRACE-eligible transactions [(b)]; Review for Non-Reporting of TRACE-eligible transactions [(a), (b), (c)]. The conduct described in this paragraph constitutes a violation of NASD

Rule 3010 and FINRA Rule 2010.

20130378470

3. During the 2Q13 review period, the firm failed to report to TRACE 57 S1 transactions in TRACE-eligible Agency Debt Securities within 15 minutes of the time of execution. These transactions constituted 4 percent of the S1 transactions in TRACE-eligible Agency Debt Securities that the firm reported to TRACE during the review period (1,363). The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 6730(a) and a pattern or practice of late reporting without exceptional circumstances in violation of FINRA Rule 2010.

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

A censure, a fine of \$80,000 (comprised of a \$55,000 fine for the TRACE violations and a \$25,000 fine for the supervision violation), and an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraph I.A.2. Within 30 business days of acceptance of this AWC by the 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.

The firm 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 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 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 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. 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.

2-9-15
Date

Respondent
HSBC Securities (USA) Inc.

By: 
Name: Meredith Friedman
Title: SVP Assoc Gen Cnsl

Reviewed by:

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

Accepted by FINRA:

3/18/15
Date

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


Tina Salehi Gubb
Chief Counsel
FINRA Department of Market Regulation