

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2014040431101**

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

RE: Credit Suisse Securities (USA) LLC ("Respondent," "CSSU" or the "Firm"), Respondent
CRD No. 816

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

CSSU has been a FINRA regulated broker-dealer since 1936. CSSU is a full-service brokerage firm headquartered in New York, New York and currently employs approximately 2,600 registered persons. CSSU is indirectly owned by Credit Suisse Group AG, a non-FINRA regulated foreign entity.

RELEVANT DISCIPLINARY HISTORY

CSSU has no relevant disciplinary history in the securities industry.

OVERVIEW

From December 2012 through June 2013 (the "Relevant Period"), the Firm improperly reclassified certain breaks¹ relating to foreign exchange ("FX") transactions in the Firm's bank accounts held at external banks ("Nostro" accounts) that remained unresolved at month-end as FX Fails Payable/Receivable

¹ Breaks occur when activity reflected on the Firm's general ledger and the Firm's bank account statement is unable to be matched. Breaks are also known as a "reconciling items" or "reconciliation differences."

for certain of the Nostro accounts, causing the Firm's books and records including its general ledger to be inaccurate in violation of Section 17(a) of the Securities Exchange Act ("Exchange Act") and Rule 17a-3 thereunder, and FINRA Rules 4511 and 2010.

Additionally, the Firm failed to have a supervisory system reasonably designed to achieve compliance with applicable securities laws and regulations and the applicable FINRA Rules regarding reconciliation of its Nostro bank accounts and the treatment of breaks across the Firm's books and records. Through these actions, the Firm violated NASD Rule 3010(a) and FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Violation of Section 17(a) of the Exchange Act and Rule 17a-3 thereunder, and FINRA rules 4511 and 2010.

FINRA Rule 4511(a) requires FINRA regulated broker-dealers to "make and preserve books and records as required under the FINRA rules, the Exchange Act and the applicable Exchange Act rules." Exchange Act §17(a) and the applicable Exchange Act rules, Rule 17a-3(a)(2) and 17a-3(a)(11), require firms to make and maintain "[l]edgers reflecting all assets and liabilities, income and expense and capital accounts." Inherent in these rules is the requirement that the records made are accurate. A violation of FINRA Rule 4511 is also a violation of FINRA Rule 2010.

The Firm's errors in classifying "breaks" in the reconciliation of its FX-related Nostro accounts caused it to make and maintain an inaccurate general ledger at certain times over the seven-month Relevant Period.

During the Relevant Period Credit Suisse conducted an FX business to accommodate prime brokerage customers wishing to transact in foreign currencies. In connection with its FX business, Credit Suisse maintained approximately 90 bank accounts with foreign banks. These bank accounts, known as Nostro accounts, held funds in foreign currencies and were used to facilitate settlement of securities and FX transactions. The Firm reconciled on a daily basis the activity in its Nostro accounts and the corresponding entries in its general ledger.

Credit Suisse used reconciliation software to perform the daily reconciliation of the Nostro accounts. This software compared and matched the activity reflected in the Nostro accounts to activity reflected in the Firm's general ledger. Any activity that the software did not match became a reconciling item or "break." Three non-registered employees of a non-FINRA regulated Credit Suisse foreign affiliate were responsible for the month-end reconciliation and general ledger sign-off for 58 of the 90 Nostro accounts.

In keeping with the requirements of Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), in late 2012, the Firm began migrating all FX prime brokerage relationships to a single non-FINRA regulated Credit Suisse foreign affiliate. The migration caused a substantial and sudden increase in the number of breaks in the Nostro accounts related to FX transactions.

During the Relevant Period, the three unregistered employees of the Firm's foreign affiliate charged with reconciling the balances of the Nostro accounts as part of the month-end general ledger sign-off process improperly "reclassified" the breaks as "FX Fails Payable/Receivable" as of the last day of the month. These reclassifications, made in 24 of the 58 accounts without documentary support, incorrectly represented on the Firm's general ledger that each break was the result of failed transactions when in fact the breaks had not yet been resolved and many remained outstanding and unresolved into the following month and beyond. Consequently, during the seven-month Relevant Period, the Firm's general ledger contained entries reflecting inaccurate Nostro breaks in amounts ranging between \$20 million and \$318 million.

By the foregoing, the Firm violated Section 17(a) of the Exchange Act and Rule 17a-3 thereunder, and FINRA rules 4511 and 2010.

Violation of NASD Rule 3010(a) and FINRA Rule 2010

NASD Rule 3010(a) requires firms to establish a "system to supervise the activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations and with applicable [FINRA] Rules." A violation of NASD Rule 3010(a) is also a violation of FINRA Rule 2010.

During the Relevant Period, the Firm's supervisory system was unreasonable because it failed to: (i) designate a FINRA-registered individual to supervise the reconciliation of breaks in its Nostro accounts; and (ii) ensure that the correct reconciliation information was communicated to its Operations and Accounting departments, which were responsible for resolving the breaks and preparing the Firm's net capital and customer reserve computations.

Although the Firm's supervisory system designated individuals to review and approve the reconciliation of its Nostro accounts, the Firm's supervisory system failed to designate a FINRA-registered individual to supervise the Nostro account reconciliations. Consequently, no registered individual at the Firm was aware that the FX breaks were being improperly reclassified by non-registered employees of a foreign affiliate as fails on the general ledger during the Relevant Period.

In addition, the Firm's supervisory system failed to reasonably ensure that information concerning the Nostro accounts reconciliation was communicated to

Firm personnel responsible for resolving the breaks or for the accurate completion of the Firm's net capital and customer reserve computations.

The Firm delegated to individuals in the FX Operations department the responsibility for determining when and how a break would be resolved, and separately delegated to individuals in the Operations and in the Accounting departments the responsibility for determining how a break would be treated for net capital and customer reserve purposes. However, the Firm's supervisory system was unreasonable because it failed to provide a process for communicating the reclassification of the breaks on the general ledger to Firm personnel responsible for resolving the breaks or Firm personnel performing net capital and customer reserve calculations. Significantly, the Firm also failed to take reasonable steps to ensure that the sharp increase in breaks that occurred as a result of the migration of accounts to the CSSU affiliate, or the reclassification of those breaks, was being communicated to the Firm's head of financial reporting, despite its awareness of these facts. Thus, the Firm did not treat the financial information concerning the Nostro breaks consistently across the Firm's financial books and records, resulting in the general ledger inaccuracies described above.

By the foregoing, the Firm violated NASD Rule 3010(a) and FINRA Rule 2010.

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

A censure and a fine of \$250,000.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is 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 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 it;
- 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 it; 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 Respondent;
 - 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 Respondent'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. 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.

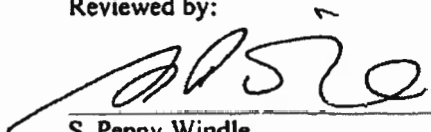
The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that Respondent has agreed to its provisions voluntarily; and that no offer, 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.

Credit Suisse Securities (USA) LLC, Respondent

2/7/18
Date (mm/dd/yyyy)

By: 

Reviewed by:



S. Penny Windle
Counsel for Respondent
Cahill Gordon & Reindel LLP
80 Pine Street
New York, NY 10005
212-701-3693

Accepted by FINRA:

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

3/12/18
Date


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