

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2018059528401**

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

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

Pursuant to FINRA Rule 9216, Respondent HSBC Securities (USA) Inc. (HSBC 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 Respondent alleging violations based on the same factual findings described in this AWC.

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 has been a FINRA member since July 1987 and is headquartered in New York, NY. It is an indirect wholly owned subsidiary of HSBC North America Holdings Inc., which itself is an indirect wholly owned subsidiary of HSBC Holdings plc. The Firm conducts a full-service brokerage business, including, among other things, sales and trading, research and underwriting services. HSBC employs approximately 3,050 registered and non-registered individuals. Respondent does not have any relevant disciplinary history.

OVERVIEW

Federal securities laws require that FINRA member firms fingerprint most associated persons prior to or upon association with a firm. A firm reviews the fingerprint results as part of its background check to determine, among other things, whether a prospective associated person has previously engaged in misconduct that subjects that person to a statutory disqualification. As set forth in Section 3(a)(39) of the Securities Exchange Act of 1934 (Exchange Act), certain criminal and regulatory events will subject a person to a statutory disqualification.

Between January 1, 2011 and March 25, 2019, HSBC failed to reasonably screen 2,191 non-registered associated persons for statutory disqualification. Specifically, HSBC fingerprinted these non-registered associated persons and screened them under Section 19 of the Federal Deposit Insurance Act, but did not screen them for statutory disqualification under the broader requirements of the Exchange Act.

The Firm's failure to properly screen its non-registered associated persons resulted from its failure to maintain a reasonable supervisory system and procedures to identify and screen all individuals associated with the Firm in a non-registered capacity. The Firm self-reported this matter to FINRA and commenced a remedial review and screening process of non-registered associated persons at HSBC.

As a result of the foregoing, HSBC violated NASD Rule 3010 (for conduct occurring before December 1, 2014) and FINRA Rules 3110 (for conduct occurring on and after December 1, 2014) and 2010.

FACTS AND VIOLATIVE CONDUCT

This matter originated from the Firm's self-reporting to FINRA of its failure to screen non-registered associated persons for statutory disqualification.

NASD Rule 3010 required, and FINRA Rule 3110 requires, that each member firm establish and maintain a system, including written procedures, reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD and FINRA Rules.¹ A violation of NASD Rule 3010 and FINRA Rule 3110 is also a violation of FINRA Rule 2010, which requires members to observe high standards of commercial honor and just and equitable principles of trade.

As part of its supervisory obligations, HSBC was required to screen its non-registered associated persons for statutory disqualification. This is because Article III, Section 3(b) of the FINRA By-Laws generally prohibits member firms from associating with an individual subject to statutory disqualification, unless specific approval has been granted. Under Section 3(a)(39) of the Exchange Act, a person is subject to disqualification if that person was the subject of certain regulatory events or has been convicted of certain crimes within the prior ten years.

Between January 1, 2011 and March 25, 2019, HSBC failed to establish and maintain a supervisory system or written supervisory procedures reasonably designed to screen 2,191 non-registered associated persons for statutory disqualification. The Firm's written procedures only addressed fingerprinting and screening for statutory disqualification of registered individuals or those required to be registered. The procedures did not require that non-registered associated persons be fingerprinted and screened for statutory disqualification under the Exchange Act. The firm also failed to assign personnel to identify and screen non-registered associated persons under the Exchange Act.

¹ FINRA Rule 3110 superseded NASD Rule 3010 on December 1, 2014.

Because of this failure, although HSBC fingerprinted the 2,191 non-registered associated persons, the Firm did not screen them for statutory disqualification under the Exchange Act. Rather, the Firm screened them under the narrower requirements of Section 19 of the Federal Deposit Insurance Act. Section 19 requires banks to obtain approval to hire or retain anyone who has been convicted of, or entered into a pretrial diversion or similar program related to, any criminal offense involving dishonesty or a breach of trust or money laundering. The requirements under the Exchange Act are broader. They call for broker-dealers to obtain approval prior to associating with anyone convicted, within the past ten years, of criminal offenses (including misdemeanors) similar to those specified in Section 19, as well as anyone convicted of any domestic felony or subject to specified findings or actions by certain financial regulators.

After identifying this issue, as part of its remedial efforts, HSBC was able to fingerprint and screen 1,837 of the 2,191 non-registered associated persons pursuant to Exchange Act standards. Through this process, HSBC did not identify any individuals who were subject to statutory disqualification. However, HSBC was unable to fingerprint and screen 304 of the 2,191 individuals because they were no longer associated with the Firm, and HSBC could thus not determine whether those individuals were subject to statutory disqualification.

Therefore, HSBC violated NASD Rule 3010 and FINRA Rules 3110 and 2010.

SANCTIONS CONSIDERATIONS

In determining the appropriate sanctions in this matter, Enforcement considered, among other factors, that the Firm: (i) initiated, prior to intervention by a regulator, an extensive review of the Firm's systems, practices, and procedures with respect to fingerprinting and screening non-registered associated persons; (ii) shared the results of that review with FINRA; (iii) promptly commenced correcting supervisory deficiencies identified by the Firm's internal review; and (iv) provided substantial assistance to FINRA in its investigation.

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

- a censure;
- a fine in the amount of \$650,000;
- an undertaking to review its systems and procedures regarding the identification, fingerprinting, and screening of non-registered associated persons to ensure that current systems and procedures are reasonably designed to achieve compliance with governing securities laws and regulations, specifically FINRA Rule 3110 and FINRA By-Laws Article III, Section 3(b). Within 60 days of Notice of Acceptance of this AWC, an officer or director of the Firm shall describe in a written statement the methodology used by the Firm to conduct the referenced review and certify in writing to FINRA's Department of Enforcement that the Firm has adopted and implemented policies and procedures, including written

procedures, reasonably designed to achieve compliance with the provisions of FINRA Rule 3110 and FINRA By-Laws Article III, Section 3(b). For good cause shown and upon receipt of a timely application, FINRA staff may extend the review and certification deadline set forth above.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. HSBC 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 an inability to pay, now or at any time after the execution of this AWC, the monetary sanction imposed in this matter.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

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 its acceptance or rejection.

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

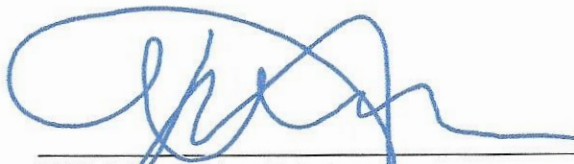
Respondent understands that:

- 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 Respondent's permanent disciplinary record and may be considered in any future action 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 its subject matter 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 testimonial obligations or 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.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's 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 Respondent 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 in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

01/15/2021

Date



HSBC Securities (USA) Inc.

Respondent

Print Name: Jason Henderson

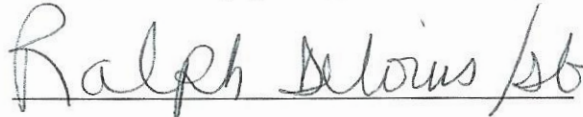
Title: CEO, HSBC Securities (USA) Inc.

Accepted by FINRA:

2/2/2021

Date

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



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