

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2018060924101**

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

RE: Credit Suisse Securities (USA) LLC (Respondent)
Member Firm
CRD No. 816

Pursuant to FINRA Rule 9216, Respondent Credit Suisse Securities (USA) LLC 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 accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

Credit Suisse has been a FINRA member since October 1936.¹ The firm is headquartered in New York City, has approximately 1,800 registered individuals and 24 branch offices, and is a full-service broker-dealer that engages in investment banking, research, proprietary trading, and sales and trading services to institutional customers.²

OVERVIEW

From November 2015 through at least March 2023, Credit Suisse reported to the Trade Reporting and Compliance Engine (TRACE) approximately 9,000 late trades, primarily in securitized products, and hundreds of thousands of inaccurate TRACE reports. The firm's late and inaccurate TRACE reports violated FINRA Rules 6730 and 2010. From July 2016 through June 2021, Credit Suisse also failed to timely provide notice to FINRA for approximately 190 new issue offerings in TRACE-reportable securities in violation of FINRA Rules 6760 and 2010.

Finally, Credit Suisse's supervisory system for reviewing the timeliness and accuracy of its TRACE reporting was not reasonable. As a result, the firm violated FINRA Rules 3110 and 2010.

¹ In March 2023, UBS announced that it plans to acquire Credit Suisse.

² For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA's review of the firm's TRACE reporting and certain self-reports made by the firm.

FINRA Rule 6730 (Transaction Reporting) sets out the requirements that apply to firms when reporting transactions in TRACE-eligible securities. TRACE facilitates the mandatory reporting of over-the-counter transactions in certain fixed income securities and provides increased price transparency to market participants and investors. Untimely or inaccurate trade reporting of disseminated trades directly impacts investors and other market participants by depriving them of meaningful information necessary to make trading and valuation decisions. Inaccurate information affects the audit trail and can result in either false alerts or the inability to detect problematic transactions.

FINRA Rule 6760 requires that members who are managing underwriters in TRACE-eligible securities provide notice to FINRA of new issue offerings and do so within the timeframe prescribed in Rule 6760(c).

Violations of FINRA Rules 6730 and 6760 also constitute a violation of FINRA Rule 2010, which states that "[a] member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade." In addition, FINRA Rule 6730(f) provides that "[a] pattern or practice of late reporting without exceptional circumstances may be considered conduct inconsistent with high standards of commercial honor and just and equitable principles of trade, in violation of [FINRA] Rule 2010."

Credit Suisse failed to timely report transactions in TRACE-eligible securities.

FINRA Rule 6730(a) provides that each member that is a party to a transaction in a TRACE-eligible security must report the transaction to TRACE as soon as practicable, but no later than within 15 minutes of the time of execution, except as otherwise specifically provided in the rule. FINRA Rule 6730(a)(5) provides that members have an obligation to report to TRACE transaction information promptly, accurately, and completely.

Credit Suisse failed to timely report to TRACE transactions in securitized products, corporate debt, and agency debt securities. Most of these late reports, which ranged from a few minutes to several days late, had one of two root causes: (i) manual errors or omissions that delayed reports or (ii) amendments not submitted in a timely manner.

Between January 2018 and September 2022, Credit Suisse failed to timely report to TRACE approximately 7,000 transactions in securitized products, an average monthly late reporting rate of 4.53%.

From July 2021 through at least March 2023, Credit Suisse failed to timely report to TRACE approximately 1,800 transactions in corporate bonds, an average monthly late reporting rate of 2.61%.

From January 2020 through March 2022, Credit Suisse failed to timely report to TRACE approximately 165 transactions in agency bonds, an average monthly late reporting rate of 19.6%.

Therefore, Credit Suisse violated FINRA Rules 6730(a) and 2010. In addition, the firm's late reporting constituted a pattern or practice of late reporting without exceptional circumstances in violation of FINRA Rule 2010.

Credit Suisse misapplied the No Remuneration indicator in TRACE reports.

FINRA Rules 6730(d)(1) and 6730(d)(4)(F) require member firms to include the No Remuneration indicator where a trade report does not reflect either a commission, mark-up, or mark-down. The No Remuneration indicator provides investors and market participants more meaningful pricing information that better reflects comparable prices for principal and agency trades by identifying those trades where no commission, mark-up or mark-down was charged or known when reported. The No Remuneration indicator is part of publicly disseminated TRACE transaction data.

From May 2016 to July 2021, the firm submitted approximately 514,000 TRACE reports with inaccurate No Remuneration indicators for transactions in U.S. Treasury securities and securitized products.³ Due to coding errors, the inaccurate reports either failed to include the No Remuneration indicator or added the indicator when it did not apply. The error rate was approximately 19% of the firm's total TRACE-reported trades in U.S. Treasury securities and securitized products. As a result of separate reviews in 2019 and 2021, the firm identified each coding error within 18 to 30 months after the violations began and remediated each error. Credit Suisse submitted two self-reports to FINRA disclosing its inaccurate use of the No Remuneration indicator.

Therefore, Credit Suisse violated FINRA Rules 6730(d)(1), 6730(d)(4)(F), and 2010.

Credit Suisse misapplied the Non-Member Affiliate – Principal Transaction indicator in TRACE reports.

FINRA Rule 6730(d)(4)(E) requires member firms to append a Non-Member Affiliate – Principal Transaction (NMAPT) indicator when reporting a transaction with a non-member affiliate in which both the member and non-member affiliate act in a principal capacity and the trade occurs on the same day, at the same price, and in the same security as a transaction by the member with another contra-party. Application of the NMAPT indicator denotes a principal transaction with a non-member affiliate also acting as principal and removes a trade from public dissemination.

From July 2017 to February 2020, Credit Suisse reported to TRACE approximately 264,000 trades in U.S. Treasury securities and securitized products that, due to the firm's coding error, inaccurately included the NMAPT indicator. The error rate was 15% of the

³ Transactions in U.S. Treasuries reported to TRACE are not publicly disseminated. See FINRA Rule 6750(c)(5).

firm's total TRACE-reported trades in U.S. Treasury securities and securitized products. The firm identified the coding error 32 months after the violations began and remediated it. Credit Suisse self-reported to FINRA its inaccurate use of the NMAPT indicator.

Therefore, Credit Suisse violated FINRA Rules 6730(d)(4)(E) and 2010.

Credit Suisse reported inaccurate information to TRACE.

FINRA Rule 6730(c)(6) requires TRACE reports to identify the contra-party to the transaction. FINRA Rule 6730(c)(8) requires TRACE reports to contain the time of execution for the transaction.

From November 2015 through June 2019, Credit Suisse reported to TRACE approximately 11,500 trade reports in corporate bonds with inaccurate contra-party identifiers. From July 2016 to December 10, 2021, Credit Suisse reported to TRACE approximately 9,700 trade reports in U.S. Treasury securities and securitized products with inaccurate execution times. The firm corrected the coding errors that caused these inaccurate reports and in two separate self-reports disclosed to FINRA its reporting of inaccurate execution times on certain U.S. Treasuries trade reports.

By submitting reports with inaccurate contra-party identifiers and inaccurate execution times, the firm violated FINRA Rules 6730(c)(6), 6730(c)(8), and 2010.

Credit Suisse failed to timely notify FINRA of new issue offerings.

FINRA Rule 6760 requires that each member that is a managing underwriter of a new issue distribution or offering of a TRACE-eligible security provide notice to FINRA of certain information regarding the new issue prior to the execution of the first transaction of the offering, except as provided in the rule.

From July 2016 through June 2021, Credit Suisse failed to timely notify FINRA of approximately 190 new issue offerings in TRACE-eligible asset-backed securities, an error rate exceeding 5% of the firm's new issue submissions in TRACE-eligible asset-backed securities. Therefore, the firm violated FINRA Rules 6760 and 2010.

Credit Suisse's supervisory system was not reasonably designed to achieve compliance with TRACE reporting rules.

FINRA Rule 3110(a) requires a member firm to establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules. FINRA Rule 3110(b) requires a member firm to establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.

The duty to supervise under Rule 3110 also includes the responsibility to reasonably investigate red flags that indicate rule violations may be occurring and to act upon the results of such investigation. A violation of FINRA Rule 3110 also constitutes a violation of FINRA Rule 2010.

From at least November 2015 through at least March 2023, Credit Suisse's supervisory system concerning TRACE reporting was not reasonably designed to achieve compliance with FINRA Rules 6730 and 6760 for several reasons.

First, Credit Suisse's TRACE supervisory reviews identified a high number and percentage of late trade reports in securitized products by March 2018 and in corporate bonds by September 2021. Credit Suisse, however, did not fully address or remediate the underlying causes for the delayed reports, erroneous reports, and reports requiring subsequent amendments that resulted in the firm's late reporting. Instead, the firm established internal late error rate targets for securitized products and corporate bond reporting that were too high to address its ongoing pattern of late trade reporting described above.

Second, Credit Suisse's supervisory reviews for accuracy were unreasonable. For example:

- From as early as November 2014 to 2018, the firm primarily relied on rejected and mismatched trade notices from TRACE to identify inaccurate TRACE reports. By relying primarily on such notices in the firm's supervisory reviews, the firm failed to capture certain other potentially inaccurate TRACE reports that were not part of TRACE reject and mismatch notices.
- In the second quarter of 2018, the firm added supervisory reviews for accuracy of certain TRACE fields, such as times of execution. The firm's accuracy reviews, however, continued to exclude certain fields such as the No Remuneration indicator. During the third quarter of 2020, the firm implemented a supervisory review for the No Remuneration indicator.
- From at least November 2015 to 2020, two firm desks had not established any supervisory system or procedures to perform annual reviews to identify affiliates for TRACE reporting purposes, as required by FINRA Rule 6730 Supplementary Material .02. A third desk performed a review that was not reasonable because the review focused on past trades to determine the accuracy of the contra-party identifier rather than conducting a review to ensure that all entities met the definition of non-member affiliate, as the rule requires.

Third, from July 2016 to June 2022, the firm did not have a supervisory system, including written supervisory procedures, to review the timeliness of notices it provided to FINRA of new issue offerings pursuant to FINRA Rule 6760.

Therefore, Credit Suisse violated FINRA Rules 3110 and 2010.

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

- a censure; and
- a \$900,000 fine.

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 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 right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.
- 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.

June 12, 2023

Date

Lara Leaf

Credit Suisse Securities (USA) LLC

Respondent

Print Name: Lara Leaf

Title: Director

Reviewed by:

Derek N. Lacarrubba

Derek N. Lacarrubba

Counsel for Respondent

Schulte Roth & Zabel LLP

919 Third Avenue

New York, NY 10022

Accepted by FINRA:

Signed on behalf of the

Director of ODA, by delegated authority

June 23, 2023

Date

Gerald J. O'Hara

Gerald O'Hara

Senior Counsel

FINRA

Department of Enforcement

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