

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2019063432006**

TO: Department of Enforcement
Financial Industry Regulatory Authority

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

Pursuant to FINRA Rule 9216, Respondent HSBC Securities (USA) Inc. submits this Letter of Acceptance, Waiver, and Consent 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

HSBC has been a member of FINRA since July 1987, and its registrations remain in effect. HSBC has 63 branch offices and approximately 1,450 registered representatives. The firm conducts a full-service brokerage business, including sales and trading, research, and underwriting services.¹

OVERVIEW

Between July 2017 and September 2020, HSBC failed to take reasonable steps to ensure that intermarket sweep orders it routed to certain market centers met the requirements set forth in Rules 600(b)(30) and 600(b)(31)² of Regulation National Market System (NMS) of the Securities Exchange Act of 1934, in violation of Rule 611(c) of Regulation NMS and FINRA Rule 2010. During this same period, HSBC failed to establish and maintain a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with Rule 611(c), in violation of FINRA Rules 3110 and 2010.

¹ For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

² Effective January 18, 2019, Rule 600(b)(30) was renumbered Rule 600(b)(31). After the conduct at issue, in June 2021, the rule was again renumbered to Rule 600(b)(38). Because Rules 600(b)(30) and 600(b)(31) were the rules in effect during the relevant period, those rules apply to the subject conduct.

FACTS AND VIOLATIVE CONDUCT

This matter originated from exceptions identified in FINRA's surveillance of intermarket sweep order (ISO) activity in March 2019.

HSBC violated Rule 611 of Regulation NMS.

Rule 600(b)(31) of Regulation NMS, like its predecessor Rule 600(b)(30), defined an ISO as a limit order for an NMS stock that is identified as an ISO when routed to a trading center and simultaneously with the routing of the limit order identified as an ISO, one or more additional limit orders, as necessary, are routed to execute against the full displayed size of any protected bid, in the case of a limit order to sell, or the full displayed size of any protected offer, in the case of a limit order to buy, for the NMS stock with a price that is superior to the limit price of the limit order identified as an ISO. These additional routed orders must be marked as ISOs.

Rule 611(c) provided that the trading center, broker, or dealer responsible for routing an ISO shall take "reasonable steps" to establish that the ISO meets the requirements set forth in Rules 600(b)(30) and 600(b)(31).

A violation of Rule 611 constitutes a violation of FINRA Rule 2010, which requires "[a] member, in the conduct of its business, [to] observe high standards of commercial honor and just and equitable principles of trade."

Between July 2017 and September 2020, HSBC failed to take reasonable steps to establish that the ISOs it routed met the requirements set forth in Rules 600(b)(30) and 600(b)(31). Specifically, when HSBC routed orders to various exchanges that it marked as ISOs during this period, three technical issues with its vendor's smart order router resulted in the firm not recognizing, and then routing additional ISOs necessary to execute against, protected quotes displayed by certain market centers. As a result, HSBC sent a total of 10,265 ISO orders³ that were priced through other market centers' protected liquidity because the firm did not route the additional ISOs necessary to execute against those protected quotes, as required by Rules 600(b)(30) or 600(b)(31).

HSBC did not identify these issues and did not conduct a review designed to verify that it routed all necessary ISOs to execute against protected quotations. Accordingly, HSBC failed to take reasonable steps to establish that the ISOs it routed met the requirements set forth in Rules 600(b)(30) and 600(b)(31). The firm's vendor resolved the technical issues in its smart order router system in September 2020.

Therefore, HSBC violated Rule 611(c) and FINRA Rule 2010.

³ 1,794 of which were routed to exchanges for which FINRA conducts Reg. NMS reviews.

HSBC's supervisory system was not reasonably designed to comply with Rule 611 of Regulation NMS.

FINRA Rule 3110(a) requires firms to establish and maintain a system, including written procedures, 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.

A violation of FINRA Rule 3110 constitutes a violation of FINRA Rule 2010.

Prior to July 2017, HSBC routed ISOs only to executing brokers. When HSBC began routing ISOs directly to exchanges, the firm did not update its supervisory systems to include a review of ISOs for compliance with Rule 611. Between July 2017 and September 2020, HSBC's supervisory system, including written procedures, was not reasonably designed to achieve compliance with Rule 611(c).

Specifically, HSBC had no reviews or procedures to establish that ISOs it routed to comply with Rules 600(b)(30) and 600(b)(31) by executing against protected quotations were sent and received by all necessary venues, on a timely basis, for the correct size and price, in compliance with Rule 611(c). Because of these supervisory deficiencies, HSBC failed to detect and timely remediate the three technical issues with its vendor's smart order router that caused the firm to route ISOs that were priced through market centers' protected quotations. HSBC has since remediated these deficiencies.

Therefore, HSBC violated FINRA Rules 3110 and 2010.

B. Respondent also consents to the imposition of the following sanctions:⁴

- a censure and
- a \$19,197.00 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.

⁴ Related disciplinary action on behalf of Cboe BYX Exchange, Inc.; Cboe BZX Exchange, Inc.; Cboe EDGA Exchange, Inc.; Cboe EDGX Exchange, Inc.; Investors Exchange, LLC; The New York Stock Exchange LLC; NYSE American LLC; NYSE Chicago, Inc., and NYSE Arca, Inc. for similar violations is being taken concurrently in conjunction with this matter.

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 8, 2022

Date

HSBC Securities (USA) Inc.
Respondent

By: Leon McIntyre

Print Name: Leon F. McIntyre
Title: Managing Director

Reviewed by:

Meredith Friedman

Meredith Friedman
Counsel for Respondent
Managing Associate General Counsel
U.S. Litigation and Regulatory Enforcement | HSBC North America Holdings Inc.
452 Fifth Avenue, 7th Floor
New York, NY 10018

Accepted by FINRA:

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

June 10, 2022

Date

Nicole Waksmundzki

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