

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2019063673101**

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

RE: BNP Paribas Securities Corp. (Respondent)
Member Firm
CRD No. 15794

Pursuant to FINRA Rule 9216, Respondent BNP Paribas Securities Corp. 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

BNP has been a FINRA member since December 1984. It is headquartered in New York, New York and has more than 1,300 registered representatives among its 11 branch offices. The firm engages in market making transactions and brokerage activities for its customers, who primarily are institutions, other broker-dealers, and affiliates. BNP also engages in investment banking activities and provides certain operational, prime brokerage, and futures commission merchant services to various institutional customers, including affiliates.

In July 2020, FINRA accepted an AWC in which the firm was censured and fined \$200,000 for Trade Reporting and Compliance Engine (TRACE) reporting violations. Between April 2016 and June 2016, and between January 2017 and December 2018, the firm failed to timely report over 10,000 transactions in TRACE-Eligible Corporate Debt Securities in violation of FINRA Rules 6730(a) and 2010. Between April 2016 and September 2016, the firm reported 135 transactions in Corporate Debt Securities with an inaccurate contra-party identifier in violation of FINRA Rules 6730(c)(6) and 2010. Between April 2016 and January 2019, the firm's supervisory system was not reasonably designed to achieve compliance with its TRACE reporting obligations in violation of FINRA Rules 3110 and 2010.

In October 2016, FINRA accepted an AWC in which the firm was censured and fined \$85,000 for TRACE reporting violations. Between April 2015 and December 2015, the

firm failed to timely report 363 transactions in Corporate Debt Securities in violation of FINRA Rules 6730(a) and 2010, inaccurately reported time of execution for 95 Corporate Debt Securities transactions in violation of FINRA Rule 6730(c)(8), and failed to accurately memorialize 93 brokerage orders in violation of Exchange Act Rule 17a-3 and FINRA Rule 4511. The firm also failed to establish, maintain, and enforce a supervisory system reasonably designed to achieve compliance with TRACE reporting rules in violation of FINRA Rules 3110 and 2010.

In July 2016, FINRA accepted an AWC in which the firm was censured and fined \$27,500 for TRACE reporting violations. Between October 2014 and June 2015, the firm failed to timely report 88 transactions in TRACE-Eligible Securitized Products and 41 new issue offerings in Securitized Products in violation of FINRA Rules 6730(a), 6760(c), and 2010.

In August 2015, FINRA accepted an AWC in which the firm was censured and fined \$50,000 for TRACE reporting violations. Between October 2013 and December 2013, the firm failed to timely report 756 Corporate Debt Securities transactions and inaccurately reported time of execution or market identifier for 108 Corporate Debt Securities transactions in violation of FINRA Rules 6730(a), 6730(c)(8), 6730(d)(4)(C), and 2010. Between January 2014 and March 2014, the firm failed to accurately report time of execution for 617 Securitized Product transactions in violation of FINRA Rule 6730(c)(8) and failed to accurately memorialize 617 brokerage orders in violation of Exchange Act Rule 17a-3 and FINRA Rule 4511(a). Between July 2014 and September 2014, the firm failed to timely report 76 TRACE-Eligible Agency Debt Securities transactions and 906 Corporate Debt Securities transactions in violation of FINRA Rules 6730(a) and 2010.¹

OVERVIEW

From July 2017 through May 2019, the firm over-reported 127,561 transactions in U.S. Treasury Securities to TRACE in violation of FINRA Rules 6730(a)(5) and 2010.

From February 2018 through November 2020, the firm incorrectly appended the “.S” modifier to the TRACE reports for 782,320 Treasury transactions in violation of FINRA Rules 6730(d)(4)(G) and 2010.

From July 2017 through November 2020, the firm failed to establish and maintain a supervisory system reasonably designed to achieve compliance with FINRA Rule 6730 in violation of FINRA Rules 3110 and 2010.

FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA’s Department of Market Regulation’s reviews of the firm’s compliance with FINRA Rules regarding TRACE reporting.

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

The firm reported Treasury transactions to TRACE that it should not have.

FINRA Rule 6730(a)(5) provides that members have an ongoing obligation to report transaction information to TRACE promptly, accurately, and completely. On July 10, 2017, FINRA began requiring firms to report certain transactions in U.S. Treasury Securities to TRACE. Only Treasury transactions involving a change in beneficial ownership are reportable to TRACE. Although Treasury TRACE information is not currently disseminated publicly, a firm's failure to report accurate information to TRACE, including reporting transactions that should not have been reported, affects the audit trail and regulatory surveillance patterns.

From July 2017 through May 2019, the firm over-reported 127,561 Treasury transactions to TRACE. These reports constituted about 14% of the total Treasury reports the firm submitted during the same period. The over-reporting occurred because the firm incorrectly relied upon a data field that did not contain full and complete BNP Paribas affiliated entity information. As a result, certain internal trades within the firm and transfers between affiliates' portfolios where no change in beneficial ownership occurred were erroneously reported to TRACE.

FINRA Rule 2010 states that a "member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade." A violation of FINRA Rule 6730, or any other FINRA rule, constitutes a violation of FINRA Rule 2010.

Therefore, the firm violated FINRA Rules 6730(a)(5) and 2010.

The firm incorrectly appended the ".S" modifier to Treasury transactions it reported to TRACE.

Rule 6730(d)(4)(G) describes indicators and modifiers required to be applied to certain Treasury transactions. One such modifier, the ".S" modifier, is applied when a transaction was part of a series of transactions and may not have been priced based on the current market. Firms have been required to apply the ".S" modifier to its Treasury TRACE reports since February 5, 2018.

From February 2018 through November 2020, BNP incorrectly appended the ".S" modifier to its TRACE reports for 782,320 Treasury transactions. These reports constituted about 40% of the total Treasury reports the firm submitted during this time. The inaccurate reporting resulted because the firm's reporting logic did not interpret the data correctly. As a result, the firm reported certain Treasury transactions with the ".S" modifier when it should not have.

Therefore, the firm violated FINRA Rules 6730(d)(4)(G) and 2010.

The firm's supervisory system was not reasonably designed to achieve compliance with FINRA Rules regarding the accuracy of TRACE reporting.

FINRA Rule 3110(a) provides that each member shall 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 FINRA rules. FINRA Rule 3110(b)(1) provides that each member shall establish, maintain, and enforce written procedures to supervise the type 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 FINRA rules.

From July 2017 through November 2020, the firm failed to establish and maintain a supervisory system reasonably designed to achieve compliance with FINRA Rule 6730. During this period, the firm had no procedures designed to achieve compliance with TRACE reporting requirements concerning the over-reporting of transactions with affiliates or the accurate use of the ".S" modifier. None of the reviews or exception reports used by the firm addressed either over-reporting of transactions to affiliates or the accurate use of the ".S" modifier. Accordingly, the firm's supervisory system was not reasonably designed to achieve compliance with its transaction reporting obligations for TRACE-Eligible Treasury transactions.

Therefore, the firm violated FINRA Rules 3110 and 2010.

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

- a censure and
- a \$375,000 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;

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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.

October 21, 2022

Date

Robert Hawley

BNP Paribas Securities Corp.
Respondent

Print Name: **Robert Hawley**
Title: **CEO & Board Chairman**

October 21, 2022

Date

George Nunn

BNP Paribas Securities Corp.
Respondent

Print Name: **George Nunn**
Title: **Chief Operating Officer**

Accepted by FINRA:

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

October 24, 2022

Date

Jeffery Ding

Jeffery Ding
Principal Counsel
FINRA
Department of Enforcement
200 Liberty Street
New York, NY 10281