

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2021073545201**

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. 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

HSBC has been a FINRA member since 1987. It conducts a full-service brokerage business, including sales and trading, research, and underwriting services. It is headquartered in New York, New York, and currently employs 1,371 registered representatives in 62 branch offices.¹

In January 2013, FINRA censured and fined HSBC \$250,000 for, among other things, failing to include required conflicts disclosures in its equity research reports in violation of NASD Rule 2711(h). The disclosure failures stemmed from a breakdown in automated data feeds, a failure to include certain debt offerings in the definition of investment banking, and incorrect mapping of company identifiers (*i.e.*, errors in manually matching company names as they appear in the firm's various data feeds to company names as they appear in the research database that generates conflicts disclosure).

OVERVIEW

Between January 2013 and December 2021, each research report HSBC published contained inaccurate disclosures about the firm's conflicts of interest. Specifically, HSBC published 67,482 equity research reports with approximately 275,000 disclosure

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

inaccuracies in violation of FINRA Rules 2241(c) and 2010 and NASD Rule 2711(h). Similarly, between July 2016 and December 2021, each debt research report HSBC published contained inaccurate disclosures about the firm's conflicts of interests. Specifically, HSBC published 2,470 debt research reports with approximately 39,000 inaccurate disclosures in violation of FINRA Rules 2242(c) and 2010. HSBC also did not establish and maintain a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with FINRA Rule 2241(c), FINRA Rule 2242(c), and NASD Rule 2711(h). As a result, HSBC violated FINRA Rules 3110 and 2010 and NASD Rule 3010.

FACTS AND VIOLATIVE CONDUCT

This matter originated from a disclosure by HSBC pursuant to FINRA Rule 4530(b).

HSBC Published Equity and Debt Research Reports with Inaccurate Conflicts Disclosures

FINRA Rule 2241(c), effective December 24, 2015, and its predecessor NASD Rule 2711(h) require firms to disclose certain conflicts in equity research reports. FINRA Rule 2242(c), effective July 16, 2016, sets forth similar conflicts disclosure requirements for debt research reports. The disclosures required by these Rules include: (i) the percentage of subject companies within each of the "buy," "hold" and "sell" rating categories for which the firm has provided investment banking services in the past year; (ii) whether the firm or its affiliates have managed or co-managed a public offering of securities for a subject company in the past year; (iii) whether the firm or its affiliates received compensation for investment banking from a subject company in the past year; (iv) whether the firm or its affiliates expect to receive or intend to seek compensation for investment banking services from a subject company in the next three months; (v) whether the firm or its affiliates received compensation for non-investment banking products or services from a subject company in the past year; and (vi) whether a subject company was a client of the firm in the prior year and, if so, the types of services the firm provided.

A violation of FINRA Rules 2241(c) and 2242(c) and NASD Rule 2711(h) also constitutes a violation of FINRA Rule 2010, which requires member firms to "observe high standards of commercial honor and just and equitable principles of trade" in the conduct of their business.

From January 2013 (the date of the firm's prior disciplinary history) until December 2021 (when the firm remediated the disclosure issues in its reports), each equity research report and, from FINRA Rule 2242's July 2016 effective date to December 2021, each debt research report issued by HSBC contained one or more inaccurate disclosure:

- In all 67,482 equity research reports and 2,470 debt research reports, HSBC did not accurately disclose the percentage of subject companies within each of the "buy," "hold" and "sell" rating categories for which it provided investment banking services within the past year.

- In approximately 20,000 instances in 10,800 equity reports, and approximately 3,800 instances in 1,000 debt reports, HSBC did not accurately disclose whether the firm or its affiliates managed or co-managed a public offering of securities for a subject company in the past year.
- In approximately 38,900 instances in 20,000 equity reports, and approximately 5,600 instances in 1,400 debt reports, HSBC did not accurately disclose whether the firm or its affiliates received compensation for investment banking services from a subject company in the past year.
- In approximately 26,000 instances in 13,800 reports, and approximately 3,500 instances in 960 debt reports, HSBC did not accurately disclose whether the firm or its affiliates expected to receive or intended to seek compensation for investment banking services from a subject company in the following three months.
- In approximately 64,200 instances in 31,400 equity reports, and approximately 14,000 instances in 1,600 debt reports, HSBC did not accurately disclose whether the firm or its affiliates had received compensation for products or services other than investment banking services from a subject company in the past year.
- In approximately 58,900 instances in 30,300 equity reports, and approximately 9,600 instances in 1,600 debt reports, HSBC did not accurately disclose whether a subject company was a firm client in the twelve-month period preceding the report, and the types of services provided by HSBC.

HSBC's disclosure inaccuracies comprised of both failures to disclose conflicts as well as disclosure of conflicts that did not exist, with most being over-disclosure. The firm's disclosure inaccuracies stemmed from several issues with the data feeds it used to generate conflicts disclosures in research reports. For example, an issue arose when multiple companies affiliated with a subject company were clients of the firm because HSBC aggregated the data for those affiliated companies and maintained the data under a single name rather than maintain individualized data for each client. As a result, the information in HSBC's data feeds caused the disclosure of investment banking relationships, compensation sources, and other conflicts with subject companies when they did not exist. On other occasions, the firm's systems did not recognize and disclose conflicts when the data for affiliated clients was aggregated and maintained under the name of an affiliated company rather than the subject company covered in the research report.

HSBC also applied a definition of investment banking services that incorrectly excluded such services in connection with asset-backed securities, private placement bonds, and certain structured products. As a result, the firm did not include data from those products in its data feeds, causing a failure to disclose investment banking related conflicts involving those offerings and products. In addition, the firm based its disclosures of investment banking revenue on two years of data even though the applicable rules limit the scope of the data to one year, resulting in over disclosure. Further, the firm at times did not timely add new client relationships to the data feeds or used inconsistent naming

conventions for the same client, resulting in a lack of required disclosures or inaccurate disclosures.

Therefore, HSBC violated FINRA Rules 2241(c) and 2010 and NASD Rule 2711(h) with respect to equity research reports, and FINRA Rules 2242(c) and 2010 with respect to debt research reports.

HSBC Failed to Have a Reasonably Designed Supervisory System Relating to Research Conflicts Disclosures

FINRA Rule 3110(a), like its predecessor NASD Rule 3010(a), requires a member firm to establish and maintain a supervisory 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.² FINRA Rule 3110(b), like its predecessor NASD Rule 3010(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. A violation of FINRA Rule 3110 and NASD Rule 3010 also is a violation of FINRA Rule 2010.

From January 2013 to December 2021, HSBC did not establish and maintain a supervisory system, including written supervisory procedures, that was reasonably designed to achieve compliance with the disclosure requirements of FINRA Rules 2241(c) and 2242(c) and NASD Rule 2711(h). HSBC had no procedures, testing, or other system to confirm that the information in the data feeds was accurate and complete, nor did the firm assign responsibility for confirming the accuracy and completeness of its data feeds to any individuals or groups. Consequently, HSBC was unable to detect the data feed deficiencies, causing the disclosure inaccuracies to occur over almost nine years.

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

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

- a censure;
- a \$2,000,000 fine; and
- an undertaking that, within 120 days of the date of the notice of acceptance of this AWC, a member of Respondent's senior management who is a registered principal of the firm shall certify in writing that, as of the date of the certification, the firm has remediated the issues identified in this AWC and implemented a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with FINRA Rules 2241(c) and 2242(c) regarding the issues identified in this AWC. The certification shall include a

² FINRA Rule 3010 superseded NASD Rule 3010 on December 1, 2014.

narrative description and supporting exhibits sufficient to demonstrate Respondent's remediation and implementation. FINRA staff may request further evidence of Respondent's remediation and implementation, and Respondent agrees to provide such evidence. Respondent shall submit the certification to Jeffrey E. Baldwin, Senior Counsel, at 1601 Market Street, Suite 2700, Philadelphia, PA 19103 and/or Jeffrey.Baldwin@finra.org, with a copy to EnforcementNotice@finra.org. Upon written request showing good cause, FINRA staff may extend this deadline.

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.

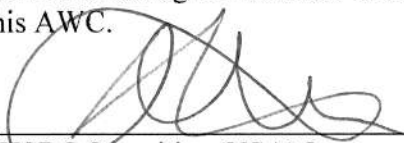
OTHER MATTERS

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.

10-2-23
Date

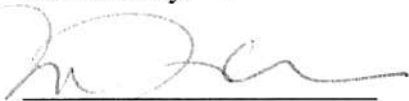


HSBC Securities (USA) Inc.
Respondent

Print Name: JAVED NADER

Title: CEO HSBC Securities

Reviewed by:



Meredith L. Friedman, Esq.
Managing Associate General Counsel
HSBC North America
452 Fifth Avenue
7th Floor
New York, NY 10018

Accepted by FINRA:

10/09/2023
Date

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



Jeffrey E. Baldwin
Senior Counsel
FINRA
Department of Enforcement
1601 Market Street
Suite 2700
Philadelphia, PA 19103