



**DISCIPLINARY DECISION**  
**Cboe BZX Exchange, Inc.**  
**Star No. 20180577360 / File No. USRI-8018-05**  
**HSBC Securities (USA) Inc.**

Pursuant to Exchange Rule 8.3, attached to and incorporated as part of this Decision is a Letter of Consent.

**Applicable Rules**

- BZX Rules 5.1 – Written Procedures and 3.2 – Violations Prohibited.
- Rule 15c3-5 – Risk Management Controls for Brokers or Dealers with Market Access, promulgated under the Securities Exchange Act of 1934, as amended.

**Sanction**

A censure and a monetary fine in the amount of \$9,000.

**Effective Date**

April 20, 2021

/s/ Greg Hoogasian

Greg Hoogasian, CRO, SVP

**Cboe BZX Exchange, Inc.**  
**LETTER OF CONSENT**  
**STAR No. 20180577360/File No. USRI-8018-05**

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In the Matter of:

HSBC Securities (USA) Inc.  
452 Fifth Avenue  
New York, NY 10018

Subject

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Pursuant to the provisions of Cboe BZX Exchange, Inc. (“BZX” or the “Exchange”) Rule 8.3 – Expedited Proceeding, HSBC Securities (USA) Inc. (“HSBC” or the “Firm”) submits this Letter of Consent for the purposes of proposing a settlement of the alleged rule violations described below.

The Firm neither admits nor denies that violations of Exchange Rules or the Securities Exchange Act of 1934, as amended (“Exchange Act”) rules have been committed, and the stipulation of facts and findings described herein do not constitute such an admission.

**BACKGROUND**

1. During all relevant periods herein, the Firm was acting as a registered Broker-Dealer and was an Exchange Member. The Firm’s registrations remain in effect.
2. This matter originated as a result of erroneous orders the Firm entered on BZX on March 9, 2018. As a result, Exchange Regulatory Staff and FINRA’s Market Analysis group conducted an investigation of the Firm’s risk management controls and supervisory procedures relating to market access during the period of June 2017 through the present (the “review period”).<sup>1</sup>

**VIOLATIVE CONDUCT**

**Applicable Rules**

3. During all relevant periods herein, the following rules were in full force and effect: Rule 15c3-5 – Risk Management Controls for Brokers or Dealers with Market Access, promulgated under the Exchange Act (“Rule 15c3-5” or the “Market

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<sup>1</sup> In addition to the Exchange, the resulting investigation was conducted on behalf of Cboe BYX Exchange, Inc. (“BYX”), Cboe EDGA Exchange, Inc. (“EDGA”), Cboe EDGX Exchange, Inc. (“EDGX”), and The Nasdaq Stock Market LLC (“Nasdaq”).

Access Rule”) and Exchange Rules 3.2 – Violations Prohibited and 5.1 – Written Procedures.

4. Rule 15c3-5(b) stated that “a broker-dealer with market access, or that provides a customer or any other person with access to an exchange or alternative trading system through use of its market participant identifier or otherwise, shall establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of this business activity.”
5. Rule 15c3-5(c)(1)(ii) required that such “risk management controls and supervisory procedures be reasonably designed to systematically limit the financial exposure of the broker or dealer that could arise as a result of market access, including being reasonably designed to: . . . (ii) [p]revent the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, on an order-by-order basis or over a short period of time, or that indicate duplicative orders.”
6. Exchange Rule 3.2 stated “[n]o Member shall engage in conduct in violation of the [Securities Exchange Act of 1934], the rules or regulations thereunder, the By-Laws, Exchange Rules or any policy or written interpretation of the By-Laws or Exchange Rules by the Board or an appropriate Exchange committee” and that “[e]very Member shall so supervise persons associated with the Member as to assure compliance with those requirements.”
7. Exchange Rule 5.1 required Members to “establish, maintain and enforce written procedures which will enable it to supervise properly the activities of associated persons of the Member and to assure their compliance with applicable securities laws, rules, regulations and statements of policy promulgated thereunder, with the rules of the designated self-regulatory organization, where appropriate, and with Exchange Rules.”

### **Market Access Rule and Exchange Rule Violations**

*HSBC entered erroneous orders on March 9, 2018*

8. On March 9, 2018, a foreign bank affiliate sent to HSBC a Market on Close (“MOC”) order, which should not have been executed until the close of trading, to buy 37,000 shares of an equity security. HSBC’s trader entered the order into the Firm’s smart order router (“SOR”) using an automated MOC “hotkey” function in the Firm’s order entry system. However, due to faulty hotkey programming, the order was entered as a regular market order. Upon receipt of the order, HSBC’s SOR immediately routed child orders to market with limit prices up to 27.9 percent above the National Best Offer (“NBO”). As a result, a total of 18,801 shares was executed within 0.3 seconds, representing 84 percent of total shares purchased in the security, at prices ranging from \$111.96 to \$123.00. As a result, the price of the security increased 9.9 percent. HSBC filed a clearly erroneous petition and

BZX cancelled all trades that were executed on BZX at prices that were more than three percent above \$111.91, which was the price of the last trade before HSBC entered the child orders. In total, BZX cancelled two trades comprising 200 shares.

*HSBC's erroneous price control for outbound orders sent from the SOR was not reasonably designed and thus failed to prevent entry of erroneous orders*

9. During the review period, HSBC's SOR had a price control for outbound orders. The control was designed to block orders with limit prices more than 10 percent above the NBO for a security at the time the SOR received the parent order. The outbound price control, however, was not designed to block orders in the event the control was not able to calculate a price threshold. For example, on March 9, 2018, this control was not able to calculate a price threshold because of an interruption in the quote data feed. Therefore, the control did not block the erroneous orders. In addition, the Firm's written description of its controls did not reference or describe the SOR outbound price control.

*Other HSBC erroneous order controls were not reasonably designed*

10. During the review period, HSBC maintained an average daily volume (ADV) limit control. For trader-managed orders such as the March 9, 2018 order, which were reviewed and handled by a Firm trader rather than through entirely automated means, the ADV limit applied was 50 percent of the security's ADV. The limit was not reasonably designed for the Firm's business model. The 50 percent limit was implemented before June 2017, when trader-managed client orders frequently involved illiquid securities routed exclusively to other broker dealers, not directly to exchanges. Since June 2017, trader-managed orders increasingly involved liquid securities and routing directly to exchanges. Further, according to the Firm's procedures, it should have applied an ADV limit of 25 percent to the March 9, 2018 order. The Firm selected a lower ADV limit of 25 percent in late 2017, and updated its written procedures accordingly, but the threshold was not updated in the Firm's systems until April 2018. As such, HSBC's written description of its ADV control and limit was inaccurate. HSBC also did not document its rationale for setting the trader-managed order ADV threshold at 50 percent.
11. In addition, during the review period, the Firm could override certain control triggers on a case-by-case basis but the Firm's written policies and procedures did not provide guidance concerning the review process or criteria for such overrides. Furthermore, the Firm's written supervisory procedures did not accurately reflect post-trade reviews of overrides.
12. During the review period, the Firm also had a notional order size control for trader-managed client orders, which applied a unique threshold for each client based upon that client's historical trading volume. As of March 9, 2018, however, HSBC had not configured this control to apply to trader-managed orders of the affiliate client that sent the MOC order. By May 2018, the Firm had updated its systems to apply

a maximum notional order size limit based on the trading history of the affiliate client.

*HSBC's supervisory failures*

13. During the review period, the Firm did not have reasonable supervisory procedures, including written supervisory procedures, for technology change management relating to the Firm's order entry system. Specifically, the Firm did not have reasonable supervisory procedures concerning hotkeys used for processing orders. As a result, the Firm failed to identify the programming flaw that resulted in the MOC order being entered into the SOR as a market order.
14. The acts, practices, and conduct described in paragraphs 8 through 13, violated Rules 15c3-5(b) and (c)(1)(ii), and BZX Rules 3.2 and 5.1 in that the Firm's financial risk management controls and supervisory procedures were not reasonably designed to prevent the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, on an order-by-order basis or over a short period of time, or that indicate duplicative orders.

**SANCTIONS**

15. The Firm does not have any prior relevant disciplinary history specifically related to its compliance with Rule 15c3-5 or supervision thereof.
16. In light of the alleged rule violations described above, the Firm consents to the imposition of the following sanctions:
  - a. A censure; and
  - b. A monetary fine in the amount of \$9,000.<sup>2</sup>

The Firm agrees to confirm in writing, within 30 business days of the date of the issuance of a Disciplinary Decision in connection with this Letter of Consent, that it has updated its written description of its risk management controls with respect to the area identified in paragraph 9 and written procedures with respect to the areas identified in paragraph 11.

The above materials shall be submitted to FINRA's Department of Enforcement, which may, upon a showing of good cause and in its sole discretion, extend the time for compliance with this provision.

If this Letter of Consent is accepted, the Firm acknowledges that it shall be bound by all terms, conditions, representations, and acknowledgements of this Letter of Consent, and, in accordance with the provisions of Exchange Rule 8.3, waives the right to review or to defend against any of

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<sup>2</sup> This settlement relates to other settlements the Firm reached with BYX, EDGA, EDGX, and Nasdaq.

these allegations in a disciplinary hearing before a Hearing Panel. The Firm further waives the right to appeal any such decision to the Board of Directors, the U.S. Securities and Exchange Commission, a U.S. Federal District Court, or a U.S. Court of Appeals.

The Firm waives any right to claim bias or prejudice of the Chief Regulatory Officer (“CRO”) in connection with the CRO’s participation in discussions regarding the terms and conditions of this Letter of Consent, or other consideration of this Letter of Consent, including acceptance or rejection of this Letter of Consent. The Firm further waives any claim that a person violated the ex parte prohibitions of Exchange Rule 8.16, in connection with such person’s participation in discussions regarding the terms and conditions of this Letter of Consent, or other consideration of this Letter of Consent, including its acceptance or rejection.

The Firm agrees to pay the monetary sanction upon notice that this Letter of Consent has been accepted and that such payment is due and payable. The Firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

The Firm understands that submission of this Letter of Consent is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the CRO, pursuant to Exchange Rule 8.3. If the Letter of Consent is not accepted, it will not be used as evidence to prove any of the allegations against the Firm.

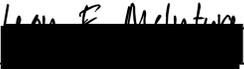
The Firm understands and acknowledges that acceptance of this Letter of Consent will become part of its disciplinary record and may be considered in any future actions brought by Cboe or any other regulator against the Firm. The Letter of Consent will be published on a website maintained by the Exchange in accordance with Exchange Rule 8.18.

The Firm understands that it may not deny the charges or make any statement that is inconsistent with the Letter of Consent. The Firm may attach a Corrective Action Statement to this Letter of Consent that is a statement of demonstrable corrective steps taken to prevent future misconduct. Any such statement does not constitute factual or legal findings by the Exchange, nor does it reflect the views of the Exchange or its staff.

**The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this Letter of Consent and has been given a full opportunity to ask questions about it; that it has agreed to the Letter of Consent's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce the Firm to submit it.**

**Date:** April 16, 2021

HSBC Securities (USA) Inc.

**By:** 

**Name:** Leon F. McIntyre

**Title:** Managing Director