



DISCIPLINARY DECISION

Cboe BZX Exchange, Inc.

Star No. 20190634320-02/File No. USRI-8669-05/URE-10-05

HSBC Securities (USA), Inc.

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

Applicable Rules

- BZX Rules 3.2 – Violations Prohibited; 5.1 – Written Procedures; and 11.9 – Order and Modifiers; and
- Rule 611 of Regulation NMS - Order Protection Rule, promulgated under the Securities Exchange Act of 1934.

Sanction

A censure and a monetary fine in the amount of \$13,250.

Effective Date

June 9, 2022

/s/ Greg Hoogasian

Greg Hoogasian, CRO, EVP

Cboe BZX Exchange, Inc.
LETTER OF CONSENT
Star No. 2019063432002/File No. USRI-8669-05

In the Matter of:

HSBC Securities (USA), Inc.
452 Fifth Avenue, 7th Floor
New York, NY 10018

Subject

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 (the “Exchange Act”) rules have been committed, and the stipulation of facts and findings described herein do not constitute such an admission.

BACKGROUND

1. HSBC Securities (USA), Inc. (CRD No. 19585) became an BZX Member in April 2017. HSBC conducts a full-service brokerage business, including sales and trading, research, and underwriting services. It has approximately 1,450 registered representative and 63 branch offices, with its principal place of business in New York, New York.
2. This matter originated from exceptions identified in FINRA’s surveillance of intermarket sweep order (“ISO”) activity in March 2019.

VIOLATIVE CONDUCT

Applicable Rules

3. During all relevant periods herein, the following rules were in full force and effect: Rule 611 of Regulation NMS - Order Protection Rule, promulgated under the Exchange Act; and BZX Rules 3.2 – Violations Prohibited; 5.1 – Written Procedures; and 11.9 – Order and Modifiers.

4. Rule 611(c) of Regulation NMS required a trading center, broker, or dealer responsible for the routing of an ISO to take reasonable steps to establish that such an order meets the requirements set forth in Rules 600(b)(30) and 600(b)(31).¹
5. Rules 600(b)(30) and 600(b)(31) of Regulation NMS defined an ISO as a limit order for an NMS stock that: (i) is identified as an ISO when routed to a trading center; and (ii) 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 also must be marked as ISOs.
6. BZX Rule 11.9(d) provided, in relevant part, that in order to be eligible for treatment as an ISO, the limit order must be marked “ISO” and the User entering the order must simultaneously route one or more additional limit orders marked “ISO,” as necessary, to away markets to execute against the full displayed size of any Protected Quotation for the security with a price that is superior to the limit price of the Intermarket Sweep Order entered in the System. Further, BZX Rule 11.9(d) provided that “it is the entering Member’s responsibility . . . to comply with the requirements of Regulation NMS relating to ISOs.”
7. BZX Rule 3.2 stated, in relevant part, “[n]o Member shall engage in conduct in violation of the [Exchange] Act, 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.”
8. BZX Rule 5.1 required that “[e]ach Member shall 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.”

Violative ISOs

9. From on or about July 1, 2017 to September 14, 2020, the Firm failed to take reasonable steps to establish that the ISOs it routed met the requirements of Rules 600(b)(30) and 600(b)(31), in violation of Rule 611(c).
10. 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

¹ 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.

resulted in the firm not recognizing, and then not routing, additional ISOs necessary to execute against protected quotes displayed by certain market centers as required by Rules 600(b)(30) and 600(b)(31). As a result, HSBC routed a total of 10,265 ISO orders, including 1,600 routed to BZX, that were priced through other market centers' protected liquidity.

11. HSBC did not identify these technical 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 these technical issues in September 2020.
12. The acts, practices and conduct described in each of Paragraphs 9 through 11 constitute violations of BZX Rules 3.2 and 11.9(d); and Rule 611(c) by the Firm, in that the Firm 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).

Supervision

13. From on or about July 1, 2017 and September 14, 2020, HSBC's supervisory system, including its written supervisory procedures ("WSPs"), was not reasonably designed to achieve compliance with Rule 611(c).
14. 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.
15. From July 2017 through September 2020, 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.
16. The acts, practices and conduct described in each of Paragraphs 13 through 15 constitute violations of BZX Rule 5.1 by the Firm, in that the Firm's supervisory system, including its WSPs, was not reasonably designed to achieve compliance with Rule 611(c).

SANCTIONS

17. HSBC does not have any prior relevant disciplinary history.
18. 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 \$13,250.²

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 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 SEC, a U.S. Federal District Court, or a U.S. Court of Appeals.

The Firm waives any right to claim bias or prejudgment 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(s) upon notice that this Letter of Consent has been accepted and that such payment(s) are 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.

² The remainder of the fine will be paid to Cboe BYX Exchange, Inc.; Cboe EDGX Exchange, Inc.; Cboe EDGA Exchange, Inc.; the New York Stock Exchange, LLC; NYSE American LLC; NYSE Arca, Inc., NYSE Chicago, Inc.; Investors Exchange LLC; and FINRA.

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 it to submit it.

Date: June 8, 2022

HSBC Securities (USA) Inc.

By: 

Print Name: Leon F. McIntyre
Title: Managing Director