

FINANCIAL INDUSTRY REGULATORY AUTHORITY

In the Matter of the  
Continued Membership  
of

HSBC Securities (USA) Inc.  
CRD No. 19585

Notice Pursuant to  
Rule 19h-1  
Securities Exchange Act  
of 1934

SD-2361

May 14, 2024

**I. Introduction**

On May 19, 2023, HSBC Securities (USA) Inc. (“HSBC” or “Firm”) submitted a Membership Continuance Application (“MC-400A” or “Application”) to FINRA’s Credentialing, Registration, Education, and Disclosure (“CRED”) Department.<sup>1</sup> The Application seeks to permit the Firm, a FINRA member, to continue its membership with FINRA notwithstanding its statutory disqualification. A hearing was not held in this matter; rather, pursuant to FINRA Rule 9523(b), FINRA’s Department of Member Supervision (“FINRA,” “Member Supervision,” or “Department”) approves the Application and is filing this Notice pursuant to Rule 19h-1 of the Securities Exchange Act of 1934 (“Exchange Act” or “SEA”).

**II. The Statutorily Disqualifying Event**

The Firm is subject to statutory disqualification, as that term is defined in Section 3(a)(39)(F) of the Exchange Act, incorporating by reference Section 15(b)(4)(D) and (E), as a result of a May 11, 2023 Order issued by the Securities and Exchange Commission (“SEC” or “Commission”) finding that HSBC willfully violated Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) and failed reasonably to supervise its employees with a view to preventing or detecting certain of its employees’ aiding and abetting violations of Section 17(a) of the Exchange Act and Rule 17a-4(b)(4) thereunder (“SEC Order”).<sup>2</sup>

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<sup>1</sup> See MC-400A Application and related attachments compiled by CRED, with a cover memorandum dated June 15, 2023, attached as Exhibit 1.

<sup>2</sup> See SEC Order, *In re HSBC Securities (USA) Inc.*, Exchange Act Release No. 97476 (May 11, 2023), attached as Exhibit 2.

The SEC Order also triggered disqualification under Rules 262(a)(4), 506(d)(1)(iv), and 602(c)(3) of the Securities Act of 1933 and Rule 503(a)(4)(ii) of Regulation Crowdfunding. On May 11, 2023, the SEC granted a waiver from the application of the disqualification provisions of these Rules. See *In re Certain Broker-Dealer Practices*, Securities Act Release No. 11182 (May 11, 2023), attached as Exhibit 3.

According to the SEC Order, from at least January 2018 to September 2021, HSBC's employees sent and received off-channel communications that related to the Firm's business, and a majority of these written communications was not maintained or preserved by the Firm.<sup>3</sup> Further, supervisors who were responsible for preventing this misconduct among junior employees routinely communicated off-channel using their personal devices, and, in so doing, failed to comply with Firm policies by communicating using non-Firm approved methods on their personal devices about the Firm's broker-dealer business.<sup>4</sup>

The Firm was censured, ordered to cease and desist from committing or causing any future violations, ordered to pay a civil money penalty of \$15,000,000, and ordered to comply with certain undertakings.<sup>5</sup>

### **III. Remedial Measures**

In its Application, the Firm represented that it has undertaken remedial measures, including adopting an enhanced Electronics Communications Policy, which requires that employees only use Firm-approved channels for business-related communications and developing guidance on the policy to include frequently asked questions.<sup>6</sup> The Firm has also undertaken to improve employee awareness of the Firm's Electronic Communications Policy, improve the "tone from the top," enhance training on the subject, implement employee attestations, enhance surveillance and escalation policies regarding off-channel communications, and enhance Firm technology.<sup>7</sup> According to the SEC Order, the SEC considered the Firm's prompt remedial actions and cooperation with the Commission when determining to accept the Offer of Settlement, and noted that the Firm self-reported off-channel communications prior to being contacted by the Commission.<sup>8</sup>

### **IV. Firm Background**

The Firm has been a FINRA member since July 25, 1987.<sup>9</sup> It is headquartered in New York, New York, with 62 branches (17 of which are Offices of Supervisory Jurisdiction).<sup>10</sup>

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<sup>3</sup> See Exhibit 2 at p. 2, para. 3.

<sup>4</sup> *Id.* at p. 2, para. 4.

<sup>5</sup> *Id.* at pp. 5-9. The Firm paid the money penalty on May 30, 2023. See Correspondence from the Firm to FINRA dated August 15, 2023, with corresponding exhibits (redactions by FINRA), attached as Exhibit 4 at FINRA p. 2 Response 1(a) and p. 16. The Firm has represented that it is in compliance with the ordered undertakings. See Correspondence from the Firm to FINRA dated February 9, 2024, attached as Exhibit 5, at p. 1, Response 1. See also Exhibit 4 at FINRA p. 1 Response 1.

<sup>6</sup> See Exhibit 1 at FINRA pp. 16-17.

<sup>7</sup> *Id.* at FINRA pp. 17-18.

<sup>8</sup> See Exhibit 2 at p. 5, para. 23.

<sup>9</sup> See Central Registration Depository ("CRD") Excerpt - Organization Registration Status, attached as Exhibit 6.

<sup>10</sup> FINRA confirmed this through analysis of the Firm's information contained in CRD, last performed on March 29, 2024.

The Firm employs approximately 1,402 registered representatives (297 of which are registered principals), 57 operations professionals, and 859 non-registered fingerprint employees.<sup>11</sup> The Firm does not employ any statutorily disqualified individuals.<sup>12</sup>

The Firm is approved to engage in the following lines of business: exchange member engaged in exchange commission business other than floor activities; broker or dealer making inter-dealer markets in corporate securities over-the-counter; broker or dealer retailing corporate equity securities over-the-counter; broker or dealer selling corporate debt securities; underwriter or selling group participant (corporate securities other than mutual funds); mutual fund retailer; U.S. government securities dealer; U.S. government securities broker; municipal securities dealer; municipal securities broker; broker or dealer selling variable life insurance or annuities; solicitor of time deposits in a financial institution; put and call broker or dealer or option writer; investment advisory services; non-exchange member arranging for transactions in listed securities by exchange member; trading securities for own account; private placement of securities; broker or dealer selling interests in mortgages or other receivables; broker or dealer involved in a networking, kiosk, or similar arrangement with a bank, savings bank or association, or credit union; broker or dealer involved in a networking, kiosk, or similar arrangement with an insurance company or agency; engages in other securities business such as acting as an agent in the syndication of loans, a primary dealer in U.S. government and federal agency securities and other money market instruments registering according to the provisions of the Government Securities Act of 1986 under Rule 15C of the Securities Exchange Act of 1934, securities futures, state insurance licensed in several states, and engages in prime brokerage business; effects transactions in commodity futures, commodities, commodity options as broker for others or dealer for own account; engages in other non-securities business such as acting as an insurance agency in several states.<sup>13</sup>

The Firm is a member of the following self-regulatory organizations (“SROs”): Cboe Exchange, Inc. (“Cboe”); Cboe BYX Exchange, Inc. (“BYX”); Cboe BZX Exchange, Inc. (“BZX”); Cboe EDGA Exchange, Inc. (“EDGA”); Cboe EDGX Exchange, Inc. (“EDGX”); Investors Exchange LLC (“IEX”); New York Stock Exchange LLC (“NYSE”); NYSE American LLC (“NYSE American”); NYSE Arca, Inc. (“NYSE Arca”); NYSE Chicago, Inc. (“NYSE Chicago”); Nasdaq BX, Inc. (“BX”); Nasdaq ISE, LLC (“ISE”); Nasdaq PHLX LLC (“PHLX”); The Nasdaq Stock Market LLC (“Nasdaq”);<sup>14</sup> Municipal Securities Rulemaking Board (“MSRB”); The Depository Trust Company (“DTC”); The Fixed Income Clearing Corporation – Government Securities Division (“FICC-GOV”); and The National Securities Clearing Corporation (“NSCC”).<sup>15</sup>

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<sup>11</sup> FINRA confirmed this through analysis of the Firm’s information contained in CRD, last performed on March 29, 2024.

<sup>12</sup> *Id.*

<sup>13</sup> See CRD Excerpts - Types of Business and Other Business Descriptions, collectively attached as Exhibit 7.

<sup>14</sup> See Exhibit 6.

<sup>15</sup> Membership in these organizations was verified by FINRA staff through a search of public member directories, last performed on March 29, 2024.

### **Recent Examinations**

In the past two years, FINRA completed four routine examinations of the Firm. Two of the routine examinations were conducted on behalf of other SROs pursuant to Regulatory Services Agreements. Only three of these examinations resulted in Cautionary Action Letters (“CALs”). FINRA also completed four non-routine examinations of the Firm in the past two years which resulted in CALs.

#### **A. FINRA Routine Examinations**

In March 2024, FINRA issued a CAL to the Firm, on behalf of Cboe, ISE, NYSE American, NYSE Arca, and NYSE, based on two exceptions pertaining to the Firm’s failure to adhere to its written supervisory procedures (“WSPs”) regarding reviews of options errors by a Registered Options Principal and the Firm’s failure to disclose itself as an “Approved Person.”<sup>16</sup> The Firm responded in writing describing the root causes of the exceptions and detailing action plans that the Firm developed to address the issues, which include policy and procedure enhancements.<sup>17</sup>

In February 2024, FINRA issued a CAL to the Firm based on one exception pertaining to the Firm’s failure to accurately represent the balances reported on its Supplemental Focus Form Off Balance Sheet.<sup>18</sup> The Firm responded in writing identifying the root cause of the errors and noted that it had updated its procedures to report the relevant items at fair value in future submissions.<sup>19</sup>

In May 2022, FINRA issued a CAL to the Firm based on one exception pertaining to the Firm’s failure to update internal records and Form BD within 30 days in connection with the dissolution of 29 affiliates, and the Firm’s failure to enforce its WSPs as it pertains to Form BD amendments.<sup>20</sup> The Firm responded in writing identifying the root cause of the errors and noted that it made all outstanding updates via Form BD amendments and committed to implementing enhancements to prevent reoccurrence.<sup>21</sup>

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<sup>16</sup> See Disposition Letter for Examination No. 20230771907 dated March 1, 2024, Examination Report dated December 27, 2023 (amended January 4, 2024), and Firm Response dated January 12, 2024, collectively attached as Exhibit 8, at FINRA pp. 1, 5-6.

<sup>17</sup> *Id.* at FINRA pp. 9-11.

<sup>18</sup> See Disposition Letter for Examination No. 20230771522 dated February 1, 2024, Examination Report dated December 27, 2023, and Firm Response dated January 12, 2024, collectively attached as Exhibit 9, at FINRA pp. 1, 5-6.

<sup>19</sup> *Id.* at FINRA pp. 8-9.

<sup>20</sup> See Disposition Letter for Examination No. 20210693426 dated May 26, 2022, Examination Report dated April 29, 2022, and Firm Response dated May 13, 2022, collectively attached as Exhibit 10, at FINRA pp. 1, 5.

<sup>21</sup> *Id.* at FINRA p. 8.

In April 2022, FINRA conducted a routine examination of the Firm on behalf of other SROs<sup>22</sup> and closed the examination without noting any exceptions.<sup>23</sup>

## B. FINRA Non-Routine Examinations

In October 2022, FINRA issued a CAL to the Firm relating to the Firm's failure to maintain policies and procedures reasonably designed to achieve compliance with FINRA Rule 5310.<sup>24</sup> The Firm responded in writing that it committed to revising relevant policies, procedures, and/or desk instruction manuals where necessary to ensure compliance with FINRA Rule 5310.<sup>25</sup>

In August 2022, FINRA issued a CAL to the Firm relating to the Firm's failures to 1) timely report 12 new issue offerings in TRACE-eligible Corporate Debt Securities to FINRA, 2) report to TRACE the correct execution time for two transactions, and 3) maintain a supervisory system reasonably designed to achieve compliance with FINRA Rule 6760(c).<sup>26</sup> The Firm responded in writing that it enhanced its processes to comply with FINRA Rule 6760 by outlining roles and responsibilities of relevant teams and by enhancing communication between teams.<sup>27</sup> The Firm further added a corresponding review to its WSPs to outline the expectations of the principal overseeing TRACE reporting.<sup>28</sup>

In June 2022, FINRA issued three CALs to the Firm.<sup>29</sup> In one CAL, the Firm was cautioned based on its failure to use reasonable diligence to ascertain the best market for certain securities and buy or sell in such markets so that the resultant prices to the customers were as favorable as possible under prevailing market conditions.<sup>30</sup> The two additional CALs (one issued by FINRA on behalf of BZX, BYX, EDGA, and EDGX, and the other on behalf

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<sup>22</sup> Cboe; BYX; BZX; EDGA; EDGX; IEX; NYSE American; NYSE Arca; NYSE Chicago; ISE.

<sup>23</sup> See Disposition Letter for Examination No. 20210693427 dated April 29, 2022, attached as Exhibit 11.

<sup>24</sup> See CAL for Examination No. 20200679317 dated October 4, 2022 and Firm Response dated October 14, 2022, collectively attached as Exhibit 12, at FINRA p. 1.

<sup>25</sup> *Id.* at FINRA p. 3.

<sup>26</sup> See CAL for Examination No. 20210721474 dated August 16, 2022 and Firm Response dated September 2, 2022 (without exhibit), collectively attached as Exhibit 13, at FINRA p. 1.

<sup>27</sup> *Id.* at FINRA pp. 3-4.

<sup>28</sup> *Id.*

<sup>29</sup> See CAL for Examination No. 20200667608 dated June 17, 2022, attached as Exhibit 14; CAL for Examination No. 20190634320/USRI-8669-05, -06, -07, -08/ URE-10-05, -06, -07, 08 issued on behalf of BZX, BYX, EDGA, and EDGX, dated June 17, 2022, with an email from the Firm acknowledging the CAL dated July 6, 2022, collectively attached as Exhibit 15; and CAL for Examination No. 20190634320 issued on behalf of IEX dated June 17, 2022, attached as Exhibit 16. The Firm was not required to provide substantive responses to the CALs.

<sup>30</sup> See Exhibit 14.

of IEX) pertained to issues with the Firm’s systems and supervision related to inter-market swap orders (“ISOs”).<sup>31</sup>

In May 2022, FINRA issued a CAL to the Firm based on three exceptions pertaining to the Firm’s failures to 1) properly record and report certain order data in compliance with FINRA Rule 6893, 2) properly record and maintain order information required by FINRA Rule 6890, and 3) establish, maintain, and enforce WSPs reasonably designed to achieve compliance with Consolidated Audit Trail (“CAT”) reporting requirements.<sup>32</sup> The Firm responded in writing identifying the root cause of each exception and stating that it made adjustments to policies and technical processes and enhanced testing and validation checks.<sup>33</sup>

### **Regulatory Actions**

In the past two years, HSBC has been the subject of disciplinary matters resulting in the following: one Letter of Acceptance, Waiver, and Consent (“AWC”) with FINRA; one parallel action resulting in AWCs with FINRA, NYSE Arca, IEX, NYSE, and NYSE American, Disciplinary Decisions with BZX, EDGX, BYX, and EDGA, and an Order Instituting Proceedings, Accepting Settlement, Making Findings, and Imposing Sanctions with NYSE Chicago; one order issued by the Commodity Futures Trading Commission (“CFTC”); one settlement entered into with the Bourse de Montreal, Inc. (“Bourse”); two Notices of Summary Action issued by the CME Group; and one regulatory action imposing a fine issued by the DTCC on behalf of DTC, NSCC, and FICC-GOV.

#### **A. FINRA Action**

On October 9, 2023, the Firm entered into an AWC with FINRA in connection with the Firm’s publication of debt and equity research reports containing inaccurate disclosures concerning the Firm’s conflicts of interest.<sup>34</sup> The Firm consented to a censure, a \$2,000,000 fine, and agreed to provide a written certification indicating that it has remediated the issues identified in the AWC and made appropriate supervisory updates.<sup>35</sup>

#### **B. FINRA, NYSE Arca, BZX, EDGX, IEX, NYSE, BYX, EDGA, NYSE American, and NYSE Chicago Related Actions**

In June 2022, the Firm resolved parallel actions as part of a joint settlement resulting in

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<sup>31</sup> See Exhibits 15 and 16.

<sup>32</sup> See Disposition Letter for Examination No. 20210717727 dated May 17, 2022, Examination Report dated February 7, 2022 (amended May 17, 2022), and Firm Response dated March 9, 2022 (without exhibits), collectively attached as Exhibit 17 at FINRA pp. 1, 5-7.

<sup>33</sup> *Id.* at FINRA pp. 9-14.

<sup>34</sup> See FINRA AWC No. 2021073545201 (Oct. 9, 2023), attached as Exhibit 18, at pp. 1-2.

<sup>35</sup> *Id.* at pp. 4-5. The Firm paid its fine on October 26, 2023. See FINRA Form U6, attached as Exhibit 19. The Firm provided its required certification to FINRA on February 6, 2024, attached as Exhibit 20 (without exhibits).

AWCs with FINRA, NYSE Arca, IEX, NYSE, and NYSE American; Disciplinary Decisions incorporating Letters of Consent with BZX, EDGX, BYX, and EDGA; and an Order Instituting Proceedings, Accepting Settlement, Making Findings, and Imposing Sanctions with NYSE Chicago (collectively “June 2022 Orders”).<sup>36</sup> The June 2022 Orders found that the Firm failed to take reasonable steps to ensure that intermarket sweep orders met the requirements set forth in Regulation National Market System (“Reg NMS”) and failed to establish and maintain a supervisory system reasonably designed to achieve compliance with Reg NMS.<sup>37</sup> The Firm consented to a censure and a total of \$125,000 in fines divided amongst the relevant SROs.<sup>38</sup>

### C. CFTC Action

On May 12, 2023, the CFTC issued an order finding that the Firm violated Section 4g of the Commodity Exchange Act (7 U.S.C. § 6g) and Commission Regulations 1.31, 1.35, and 166.3 (17 C.F.R. §§ 1.31, 1.35, and 166.3 (2022)).<sup>39</sup> These violations were based on the same misconduct underlying the SEC Order that is the subject of the Firm’s Application.<sup>40</sup> The Firm was ordered to cease and desist from violating the cited sections of the Commodity Exchange Act and Commission Regulations, to pay (jointly and severally with co-respondents) a \$30,000,000 civil penalty, and to comply with various undertakings related to the Firm’s preservation of records related to electronic communications.<sup>41</sup>

### D. Bourse Action

On November 10, 2022, the Firm entered into an Offer of Settlement with the Bourse wherein the Firm agreed that eight Firm employees were granted access to the Bourse’s trading system without obtaining prior approval of the Bourse and that the Firm failed to

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<sup>36</sup> See NYSE Arca AWC No. 2019063432001 (June 16, 2022); BZX Disciplinary Decision and Letter of Consent No. 20190634320-02/USRI-8669-05/URE-10-05 (June 9, 2022); EDGX Disciplinary Decision and Letter of Consent No. 20190634320-03/USRI-8669-07/URE-10-07 (June 9, 2022); IEX AWC No. 2019063432004 (June 9, 2022); NYSE AWC No. 2019063432005 (June 16, 2022); FINRA AWC No. 2019063432006 (June 10, 2022); BYX Disciplinary Decision and Letter of Consent No. 20190634320-07/USRI-8669-06/URE-10-06 (June 9, 2022); EDGA Disciplinary Decision and Letter of Consent No. 20190634320-08/USRI-8669-08/URE-10-08 (June 9, 2022); NYSE American AWC No. 2019063432009 (June 16, 2022); and NYSE Chicago Order Instituting Proceedings, Accepting Settlement, Making Findings, and Imposing Sanctions, Proceeding No. 2019063432010 (June 16, 2022), collectively attached as Exhibit 21.

<sup>37</sup> *Id.* at FINRA pp. 4-5, 14-15, 21-22, 26, 35-36, 43, 53-54, 60-61, 66, 74-75.

<sup>38</sup> *Id.* at FINRA pp. 6, 16, 23, 28, 36, 45, 55, 62, 68-69, 77. The Firm paid the fines in connection with this matter. See Exhibit 4 at FINRA p. 3 Response 3 and pp. 19-21.

<sup>39</sup> See CFTC Order, *In re HSBC Securities (USA) Inc., et al.*, CFTC Docket No. 23-27 (May 12, 2023), attached as Exhibit 22, at p. 8. FINRA has determined that this is not a disqualifying event.

<sup>40</sup> *Id.* at pp. 3-4.

<sup>41</sup> *Id.* at pp. 9-14. The Firm and co-respondents paid the required fine on May 23, 2023 and represented that the Firm is in full compliance with the ordered undertakings. See Exhibit 4 at FINRA p. 2 Response 2, and p. 18. See also Exhibit 5 at pp. 2-3 Response 2.

establish and maintain a system to supervise the activities of each employee reasonably designed to achieve compliance with the rules and policies of the Bourse.<sup>42</sup> The Firm consented to pay \$80,000 CAD in fines and \$5,622 CAD as reimbursement for costs related to the matter.<sup>43</sup>

#### E. CME Group Actions

On August 26, 2022, the CME Group issued two Notices of Summary Action finding that the Firm failed to maintain current and accurate information in the Exchange Fee System.<sup>44</sup> The Firm was issued a fine totaling \$8,000.<sup>45</sup>

#### F. DTC, NSCC, and FICC-GOV Actions

On July 29, 2022, DTCC Compliance issued a fine notice to the Firm on behalf of DTC, NSCC, and FICC-GOV related to the Firm's failure to notify and supply required data to DTC, NSCC, and FICC-GOV regarding a material change at the Firm.<sup>46</sup> HSBC was ordered to pay a \$5,000 fine.<sup>47</sup>

#### G. SEC Actions and Other Statutory Disqualification Matters

In addition to the above, the Firm was also the subject of one recent SEC order, which subjected the Firm to statutory disqualification but did not require the filing of a SEA Rule 19h-1 Notice with the Commission.

On March 16, 2020, the SEC issued an order finding that the Firm willfully violated Sections 206(2) and 206(4) of the Advisers Act and Rule 206(4)-7 thereunder when the Firm misrepresented in its Form ADV Part 2A and Wrap Fee Program Brochures how the Firm compensated dually-registered investment adviser representatives in its Retail Banking and Wealth Management business.<sup>48</sup> The Firm was censured, ordered to cease and desist from committing or causing any violations and any future violations of Sections 206(2) and 206(4) of the Advisers Act and Rule 206(4)-7 thereunder, and ordered to pay a

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<sup>42</sup> See Offer of Settlement, *In re HSBC Securities (USA) Inc.*, (undated), and CRD Disclosure Occurrence Composite for Occurrence 2246165, collectively attached as Exhibit 23.

<sup>43</sup> *Id.* at FINRA p. 5. The Firm paid its fine and reimbursement costs on December 5, 2022. See Exhibit 4 at FINRA pp. 4-5 Response 4, and p. 27.

<sup>44</sup> See CME Group Notices of Summary Action, CME-DQA-22-0927 and COMEX-DQA-22-0927 (Aug. 26, 2022), collectively attached as Exhibit 24, and Exhibit 4 at FINRA pp. 29-30.

<sup>45</sup> See Exhibit 24 at FINRA pp. 1, 3. The Firm paid the fine on September 9, 2022. See Exhibit 4 at FINRA p. 5 Response 5, and p. 28.

<sup>46</sup> See DTCC Fine Notice (July 29, 2022), attached as Exhibit 25.

<sup>47</sup> *Id.* The Firm paid its fine in August and September 2022. See Exhibit 4 at FINRA p. 5 Response 6, and pp. 31-33.

<sup>48</sup> See SEC Order, *In re HSBC Securities (USA) Inc.*, Exchange Act Release No. 88387 (March 16, 2020), attached as Exhibit 26, at p. 2. This order subjects the Firm to statutory disqualification as defined in Section 3(a)(39)(F) of the Exchange Act, incorporating by reference Section 15(b)(4)(D).



civil monetary penalty of \$725,000.<sup>49</sup>

## **V. Prior SEA Rule 19h-1 Notices**

The Firm has not been the subject of any prior SEA Rule 19h-1 or 19d-1 Notices.

## **VI. The Firm's Proposed Continued Membership with FINRA and Plan of Heightened Supervision**

The Firm seeks to continue its membership with FINRA notwithstanding its status as a disqualified member. The Firm has agreed to the following Plan of Heightened Supervision ("Supervision Plan" or "Plan") as a condition of its continued membership with FINRA.<sup>50</sup>

HSBC Securities (USA) Inc. (the "Firm") is subject to statutory disqualification pursuant to Section 3(a)(39)(F) of the Securities Exchange Act of 1934, which incorporates by reference Sections 15(b)(4)(D) & (E), as a result of an order issued by the U.S. Securities and Exchange Commission ("SEC" or "Commission") dated May 11, 2023, which found that the Firm willfully violated Section 17(a) of the Securities Exchange Act of 1934 and Rule 17a-4(b)(4) thereunder ("SEC Order"). The SEC Order also found that the Firm failed to reasonably supervise its employees within the meaning of Section 15(b)(4)(E).

For the purpose of this Supervision Plan, the term "Digital Communication Channels" means all written electronic methods of communication used to conduct Firm business, including but not limited to, text messaging platforms, whether via SMS messaging, iMessage, or other messaging services such as WhatsApp; direct messaging platforms including X f/k/a Twitter, Instagram, LinkedIn, Slack, or Bloomberg Messaging; non-firm domain email accounts; and any other written electronic business-related correspondence. "Digital Communication Channels" encompass platforms used to exchange messages with internal or external stakeholders using either a personal or Firm-provided device.

For the purpose of this Supervision Plan, the term "Off-Channel Communications" means all business-related written electronic messages sent on Digital Communication Channels that are not captured by Firm surveillance and record-keeping systems.

In consenting to this Supervision Plan, the Firm agrees to the following:

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<sup>49</sup> *Id.* at pp. 4-5. FINRA staff confirmed that the Firm paid the penalty. Since there are no sanctions in effect for statutory disqualification purposes, an application to continue in membership is no longer required under FINRA rules. As such, a 19h-1 Notice was not filed in connection with this matter. *See also* [FINRA Regulatory Notice 09-19](#) (June 15, 2009).

<sup>50</sup> *See* Executed Consent to Plan of Heightened Supervision dated March 6, 2024, attached as Exhibit 27.

1. The Firm shall comply with all of the undertakings outlined in the SEC Order.
2. The Firm shall maintain copies of all correspondence between the Firm and Commission staff relating to the SEC Order, including documenting when Commission staff grants extensions to the deadlines set forth in the SEC Order. The Firm shall maintain copies of all such correspondence in a readily accessible place for ease of review by FINRA staff.
3. The Firm shall provide FINRA's Statutory Disqualification Group with copies of all certifications submitted to the SEC upon completion of the undertakings as specified in the SEC Order. The Firm shall maintain copies of all certifications in a readily accessible place for ease of review by FINRA staff.
4. The Firm shall maintain copies of all reports and supporting documentation submitted to SEC staff in accordance with the SEC Order, as well as any other documentation needed to evidence the status and completion of each of the undertakings outlined in the SEC Order. The Firm shall maintain copies of such documentation in a readily accessible place for ease of review by FINRA staff.
5. Within six months of the SEC's Letter of Acknowledgement in this matter ("LOA"), to the extent that it has not already done so within the past six months, and on at least an annual basis thereafter, for a term of six years from the date of the LOA, the Firm shall conduct training for all associated persons regarding the Digital Communication Channels that the Firm has approved for business communication, along with the Firm's current policies regarding retention of business-related electronic communications. The Firm shall maintain a record of individual completion of said training and a copy of said training materials in a readily accessible place for ease of review by FINRA staff.
6. The Firm shall conduct the training described in item number 5 above for all new hires, within 65 days from the date of commencement of new hire training, for a term of six years from the date of the LOA. The Firm shall retain a record of all new hire training, including a copy of all written training materials, and keep said record(s) in a readily accessible place for ease of review by FINRA staff.
7. Within 90 days of the LOA, the Firm shall, to the extent that it has not already done so, establish and maintain a written list(s) of all Digital Communication Channels that its associated persons are permitted to use to communicate about Firm business. The list(s) shall be circulated to all of the Firm's associated persons at least on a semi-annual basis, for a term of six years from the date of the LOA. The Firm shall require that all associated persons obtain written approval for use of any Digital Communication Channels to communicate about Firm business that are not already on the approved list(s) maintained by the Firm. The Firm shall maintain a record of all requests and approvals or rejections of each request, including the date of the requests and the Firm's decision. The Firm shall maintain copies of such requests and decisions in a readily accessible place for ease of review by FINRA staff.

8. The Firm shall require all associated persons to disclose on at least a semi-annual basis, for a term of six years from the date of the LOA, any unapproved Digital Communication Channels he/she is using to communicate about Firm business. The Firm shall retain records of such disclosures in a readily accessible place for ease of review by FINRA staff.
9. Subject to Paragraph 7 above, the Firm shall prohibit associated persons from using Off-Channel Communications.
10. Within 90 days of the LOA, the Firm shall, to the extent that it has not already done so, develop a process whereby, in the event that an associated person sends or receives an Off-Channel Communication, the Off-Channel Communication is submitted to the Firm and retained in compliance with relevant securities laws and regulations. For a term of six years from the date of the LOA, the Firm shall maintain a record of all such Off-Channel Communications, including a record of the Firm's receipt of the communication, in a readily accessible place for ease of review by FINRA staff.
11. Within 90 days of the LOA, the Firm shall, to the extent that it has not already done so, develop and maintain written supervisory policies and procedures detailing the Firm's processes for disciplining associated persons who use Off-Channel Communications to communicate about Firm business. When the Firm uses the disciplinary process, the Firm shall document each instance. The Firm shall retain records of such written supervisory policies and procedures and records of the disciplinary processes and each outcome.
12. All requested documents and certifications under this Supervision Plan shall be sent directly to FINRA's Statutory Disqualification Group at [SDMailbox@FINRA.org](mailto:SDMailbox@FINRA.org).
13. The Firm shall obtain written approval from FINRA's Statutory Disqualification Group prior to changing any provision of the Supervision Plan.
14. The Firm shall submit any proposed changes or other requested information under this Supervision Plan to FINRA's Statutory Disqualification Group at [SDMailbox@FINRA.org](mailto:SDMailbox@FINRA.org).

## **VII. Discussion**

After carefully reviewing the entire record in this matter, FINRA approves the Firm's request to continue its membership with FINRA, subject to the terms and conditions set forth herein. In evaluating HSBC's Application, FINRA assessed whether the Firm has demonstrated that its continued membership is consistent with the public interest and does not create an unreasonable risk of harm to investors or the markets. *See* FINRA By-Laws, Art. III, Sec. 3(d); *cf. Frank Kufrovich*, 55 S.E.C. 616, 624 (2002) (holding that FINRA "may deny an application by a firm for association with a statutorily-disqualified individual if it determines that employment under the proposed plan would not be consistent with the public interest and the protection of investors"). Typically, factors that bear on FINRA's

assessment include, among other things, the nature and gravity of the statutorily disqualifying misconduct, the time elapsed since its occurrence, the restrictions imposed, the Firm's regulatory history, and whether there has been any intervening misconduct.

As of the date of this Notice, FINRA has determined that the Firm's continued membership is consistent with the public interest and does not create an unreasonable risk of harm to investors or the markets. While the SEC Order identified serious violations of securities laws, the Firm was not expelled or suspended, nor were any limitations placed on HSBC's securities activities. Although the SEC Order triggered certain disqualifications from exemptions from registration available under the Securities Act of 1933 ("Securities Act"), specifically Regulations A, D and E of the Securities Act and Regulation Crowdfunding, the SEC granted the Firm a waiver from the application of the disqualification provisions of Rules 262(a)(4)(ii), 506(d)(1)(iv)(B), and 602(c)(3) of the Securities Act and Rule 503(a)(4)(ii) of Regulation Crowdfunding.<sup>51</sup> Moreover, the full amount of the civil monetary penalty was promptly paid, and the Firm promptly paid the sums owed to the CFTC based on an order with similar findings as the disqualifying one. The Firm has also represented that it is in compliance with the ordered undertakings.<sup>52</sup>

Member Supervision also acknowledges that within the SEC Order the Commission considered the Firm's prompt remedial actions and cooperation with the Commission and that the Firm self-reported off-channel communications prior to the Commission contacting the Firm when determining to accept the Offer of Settlement.<sup>53</sup>

It is well settled that a firm's regulatory history bears upon the assessment of its ability to comply with securities law and regulations. *See In the Matter of the Continued Association of Craig Scott Taddonio with Meyers Associate, L.P.*, SD-2117, slip op. at 24-25 (FINRA NAC Mar. 8, 2017). However, the corrective measures taken by firms to address deficiencies are weighed in determining whether to approve applications. *See In the Matter of the Association of X with the Sponsoring Firm*, SD11007 (FINRA NAC Jan. 1, 2011) (where a firm's corrective actions negated Member Regulation's assertion that the firm failed to appreciate or respect securities rules and regulations). FINRA has also previously approved applications for continued membership where the firms had extensive regulatory history, including disqualifying events. *See In the Matter of the Continued Membership of Deutsche Bank Securities, Inc.*, SD-2190 (FINRA Jan. 14, 2020) and *In the Matter of the Continued Membership of Citigroup Global Markets, Inc.*, SD-2082 (FINRA May 2, 2017) (approving continued membership where the firms had extensive regulatory history, including recent disqualifying events).

In its evaluation of the Firm's Application, FINRA acknowledges the Firm's recent regulatory and disciplinary history, including its additional statutory disqualifying event. Member Supervision also notes that, as of the date of this Notice, the Firm has paid all fines and complied with all undertakings ordered by regulators. None of these matters

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<sup>51</sup> See Exhibit 3.

<sup>52</sup> See Exhibit 4 at FINRA pp. 1-2; Exhibit 5 at pp. 1-3.

<sup>53</sup> See Exhibit 2 at p. 5, para. 23.

would prevent the continuance of the Firm as a FINRA member. With respect to the Firm's recent examination exceptions, the Firm demonstrated a commitment to compliance by systematically describing the root causes of noted exceptions and laying out its efforts to mitigate the risk of reoccurrence including through changes to the Firm's WSPs and technological systems.

FINRA is further reassured by the controls set in place by the Firm's Supervision Plan which bolster the undertakings outlined in the SEC Order and will continue to provide oversight of the Firm and compliance with its remaining undertakings. In accordance with the Plan, the Firm agreed to conduct annual training for all associated persons, including new hires, regarding the Firm's approved digital communication methods and record retention policies for electronic communications. Further, the Plan calls for the Firm to maintain a list of approved digital communication methods that associated persons are permitted to use for Firm business and to circulate that list to its associated persons semi-annually. The Plan requires the Firm's associated persons to obtain written approval to use digital communication channels not already approved. The Plan prohibits the use of off-channel communications and requires associated persons to semi-annually disclose any unapproved digital communication methods they are using for Firm business; they must also forward any off-channel communications that may have taken place to the Firm for retention purposes. These provisions will help to ensure that the Firm is aware of the communication methods being used by associated persons so that it can appropriately monitor, capture, and retain those communications. Additionally, the Plan mandates that the Firm develop policies and procedures for disciplining associated persons who use unapproved communication methods for Firm business and segregate all certifications, reports, and supporting documentation submitted to the SEC regarding compliance with the undertakings, for ease of review by FINRA staff to ensure ongoing compliance.

The Department is further reassured by the progress the Firm has made on the undertakings required by the SEC. Specifically, the Firm promptly hired an independent compliance consultant, who completed its initial review, and the Firm has worked towards implementing the consultant's recommendations.<sup>54</sup>

Following the approval of the Firm's continued membership in FINRA, FINRA intends to utilize its examination and surveillance processes to monitor the Firm's continued compliance with the standards prescribed by Exchange Act Rule 19h-1 and FINRA Rule 9523.

Thus, FINRA is satisfied, based on the foregoing and on the Firm's representations made pursuant to the Supervision Plan, that the Firm's continued membership in FINRA is consistent with the public interest and does not create an unreasonable risk of harm to the market or investors. Accordingly, FINRA approves HSBC's Application to continue its membership with FINRA.

FINRA certifies that the Firm meets all qualification requirements and represents that the

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<sup>54</sup> See Exhibit 5 at pp. 1-2, Response 1.

Firm is registered with several other SROs including Cboe, BYX, BZX, EDGA, EDGX, IEX, Nasdaq, BX, ISE, PHLX, NYSE, NYSE American, NYSE Arca, NYSE Chicago; DTC, NSCC, and FICC-GOV. The SROs have been provided with the terms and conditions of HSBC's proposed continued membership and concur with FINRA.

In conformity with the provisions of Rule 19h-1 of the Exchange Act, the continued membership of the Firm will become effective within 30 days of the receipt of this notice by the Commission, unless otherwise notified by the SEC.

On Behalf of FINRA,



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Marcia E. Asquith  
Executive Vice President & Corporate Secretary

EXHIBITSSD-2361

1. MC-400A Application and related attachments compiled by CRED, with a cover memorandum dated June 15, 2023.
2. SEC Order, *In re HSBC Securities (USA) Inc.*, Exchange Act Release No. 97476 (May 11, 2023).
3. *In re Certain Broker-Dealer Practices*, Securities Act Release No. 11182 (May 11, 2023).
4. Correspondence from the Firm to FINRA dated August 15, 2023, with corresponding exhibits (redactions by FINRA).
5. Correspondence from the Firm to FINRA dated February 9, 2024.
6. CRD Excerpt - Organization Registration Status.
7. CRD Excerpts - Types of Business and Other Business Descriptions.
8. Disposition Letter for Examination No. 20230771907 dated March 1, 2024, Examination Report dated January 4, 2024, and Firm Response dated January 12, 2024.
9. Disposition Letter for Examination No. 20230771522 dated February 1, 2024, Examination Report dated December 27, 2023, and Firm Response dated January 12, 2024.
10. Disposition Letter for Examination No. 20210693426 dated May 26, 2022, Examination Report dated April 29, 2022, and Firm Response dated May 13, 2022.
11. Disposition Letter for Examination No. 20210693427 dated April 29, 2022.
12. CAL for Examination No. 20200679317 dated October 4, 2022 and Firm Response dated October 14, 2022.
13. CAL for Examination No. 20210721474 dated August 16, 2022 and Firm Response dated September 2, 2022 (without exhibit).
14. CAL for Examination No. 20200667608 dated June 17, 2022.
15. CAL for Examination No. 20190634320/USRI-8669-05, -06, -07, -08/ URE-10-05, -06, -07, 08 issued on behalf of BZX, BYX, EDGA, and EDGX, dated June 17, 2022, with an email from the Firm acknowledging the CAL dated July 6, 2022.
16. CAL for Examination No. 20190634320 issued on behalf of IEX dated June 17, 2022.
17. Disposition Letter for Examination No. 20210717727 dated May 17, 2022, Examination Report dated February 7, 2022 (amended May 17, 2022), and Firm Response dated March 9, 2022 (without exhibits).
18. FINRA AWC No. 2021073545201 (Oct. 9, 2023).

19. FINRA Form U6.
20. Firm certification to FINRA for Matter No. 2021073545201 dated February 6, 2024 (without exhibits).
21. NYSE Arca AWC No. 2019063432001 (June 16, 2022); BZX Disciplinary Decision and Letter of Consent No. 20190634320-02/USRI-8669-05/URE-10-05 (June 9, 2022); EDGX Disciplinary Decision and Letter of Consent No. 20190634320-03/USRI-8669-07/URE-10-07 (June 9, 2022); IEX AWC No. 2019063432004 (June 9, 2022); NYSE AWC No. 2019063432005 (June 16, 2022); FINRA AWC No. 2019063432006 (June 10, 2022); BYX Disciplinary Decision and Letter of Consent No. 20190634320-07/USRI-8669-06/URE-10-06 (June 9, 2022); EDGA Disciplinary Decision and Letter of Consent No. 20190634320-08/USRI-8669-08/URE-10-08 (June 9, 2022); NYSE American AWC No. 2019063432009 (June 16, 2022); and NYSE Chicago Order Instituting Proceedings, Accepting Settlement, Making Findings, and Imposing Sanctions, Proceeding No. 2019063432010 (June 16, 2022).
22. CFTC Order, *In re HSBC Securities (USA) Inc., et al.*, CFTC Docket No. 23-27 (May 12, 2023).
23. Offer of Settlement, *In re HSBC Securities (USA) Inc.*, (undated), and CRD Disclosure Occurrence Composite for Occurrence 2246165.
24. CME Group Notices of Summary Action, CME-DQA-22-0927 and COMEX-DQA-22-0927 (Aug. 26, 2022).
25. DTCC Fine Notice (July 29, 2022).
26. SEC Order, *In re HSBC Securities (USA) Inc.*, Exchange Act Release No. 88387 (March 16, 2020).
27. Executed Consent to Plan of Heightened Supervision dated March 6, 2024.



## **Exhibit A**

### **Plan of Heightened Supervision**

HSBC Securities (USA) Inc. (the "Firm") is subject to statutory disqualification pursuant to Section 3(a)(39)(F) of the Securities Exchange Act of 1934, which incorporates by reference Sections 15(b)(4)(D) & (E), as a result of an order issued by the U.S. Securities and Exchange Commission ("SEC" or "Commission") dated May 11, 2023, which found that the Firm willfully violated Section 17(a) of the Securities Exchange Act of 1934 and Rule 17a-4(b)(4) thereunder ("SEC Order"). The SEC Order also found that the Firm failed reasonably to supervise its employees within the meaning of Section 15(b)(4)(E).

In consenting to this Supervision Plan<sup>1</sup> ("Supervision Plan"), the Firm agrees to the following:

1. The Firm shall comply with all the undertakings outlined in the SEC Order.
2. The Firm shall maintain copies of all correspondence between the Firm and Commission staff relating to the SEC Order, including documenting when Commission staff grants extensions to the deadlines set forth in the SEC Order. The Firm shall maintain copies of all such correspondence in a readily accessible place for ease of review by FINRA staff.
3. The Firm shall maintain copies of all reports and supporting documentation submitted to SEC staff in accordance with the SEC Order, as well as any other documentation needed to evidence the status and completion of each of the undertakings outlined in the SEC Order. The Firm shall maintain copies of such documentation in a readily accessible place for ease of review by FINRA staff.
4. The Firm shall provide FINRA's Statutory Disqualification Group with copies of all certifications submitted to the SEC upon completion of the undertakings as specified under paragraph 31 of the SEC Order.
5. This Supervision Plan shall take effect on the date the Firm executes its consent to this Supervision Plan. The Supervision Plan shall be in effect until FINRA's receipt of the Firm's final certifications required by the SEC Order, after which time the Supervision Plan and its provisions thereto will expire.
6. All requested documents and certifications under this Supervision Plan shall be sent directly to FINRA's Statutory Disqualification Group at [SDMailbox@FINRA.org](mailto:SDMailbox@FINRA.org).
7. The Firm shall obtain written approval from FINRA's Statutory Disqualification Group prior to changing any provision of the Supervision Plan.

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<sup>1</sup> This Supervision Plan supersedes the Firm's previous Supervision Plan executed on March 6, 2024.

HSBC Securities (USA) Inc. (CRD No. 19585)

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8. The Firm shall submit any proposed changes or other requested information under this Supervision Plan to FINRA's Statutory Disqualification Group at [SDMailbox@FINRA.org](mailto:SDMailbox@FINRA.org).