

NYSE CHICAGO, INC.

In the Matter of:

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

Respondent.

Proceeding No. 2019063432010

**ORDER INSTITUTING PROCEEDINGS, ACCEPTING SETTLEMENT,
MAKING FINDINGS, AND IMPOSING SANCTIONS**

I.

NYSE Chicago, Inc. ("NYSE Chicago" or the "Exchange"), pursuant to Article 12, Rule 1(d) of the Rules of the Exchange, in lieu of filing charges, hereby enters this Order against the Respondent HSBC Securities (USA) Inc. ("HSBC," "Respondent," or the "Firm") instituting proceedings, accepting an Offer of Settlement, making findings, and imposing sanctions.

II.

In anticipation of the institution of these proceedings, the Respondent has submitted an Offer of Settlement ("Offer") to NYSE Chicago, which NYSE Chicago has determined to accept. This Order accepting the Offer of the Respondent, together with the Offer in and of itself, hereby constitutes the "Settlement Agreement." Respondent, without admitting or denying the findings herein, except as to the Exchange's jurisdiction over the Firm and over the subject matter of these proceedings, which is admitted solely for the purposes of this proceeding or any other proceeding brought by or on behalf of the Exchange, or to which the Exchange is a party, prior to a hearing and without adjudication of any issue of law or fact, consents to the entry of this Order Instituting Proceedings, accepting an Offer of Settlement, Making Findings, and Imposing Sanctions (the "Order").

III.

HSBC is a registered broker-dealer with its principal office located in New York, New York. HSBC became a Participant of NYSE Chicago on March 3, 1997. HSBC is subject to the disciplinary jurisdiction of NYSE Chicago pursuant to Article 12, Rule 7(a) of the Rules of the Exchange. This matter arose from an investigation conducted by FINRA's Department of Market Regulation.

IV.

FACTS

Between July 2017 and September 2020, HSBC failed to take reasonable steps to establish that the intermarket sweep orders ("ISOs") it routed met the requirements set forth in Rules 600(b)(30)

and 600(b)(31).¹ 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 resulted in the firm not recognizing, and then routing additional ISOs necessary to execute against, protected quotes displayed by certain market centers. As a result, HSBC sent a total of 10,265 ISO orders, including 17 orders to NYSE Chicago, that were priced through other market centers' protected liquidity because the firm did not route the additional ISOs necessary to execute against those protected quotes.

HSBC did not identify these 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 the technical issues in its smart order router system in September 2020.

Additionally, 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 or related exchange rules. Specifically, HSBC had no reviews or procedures to establish that ISOs it routed to comply with Rules 600(b)(30) and 600(b)(31) of Regulation NMS 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) and related exchange rules, and, accordingly, its written supervisory procedures did not describe any such reviews or procedures. Given that HSBC continuously routed violative ISOs between July 2017 and September 2020, this was unreasonable. HSBC has since remediated these deficiencies.

V.

LEGAL ANALYSIS

A. Applicable Rules

Rule 600(b)(31) of Regulation NMS, like its predecessor Rule 600(b)(30), defined an ISO as a limit order for an NMS stock that is identified as an ISO when routed to a trading center and 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 must be marked as ISOs.

Rule 611(c) provides that the trading center, broker, or dealer responsible for routing an ISO shall take "reasonable steps" to establish that the ISO meets the requirements set forth in Rules 600(b)(30) and 600(b)(31).

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.

Similarly, NYSE Chicago Rule 7.31(e)(3) defines an ISO as, “[a] Limit Order that does not route and meets the requirements of Rule 600(b)(30) of Regulation NMS,” and provided, in relevant part, “[a]n ISO may trade through a protected bid or offer . . . provided that it meets the following requirements: (i) it is identified as an ISO in the manner prescribed by the Exchange; and (ii) simultaneously with the routing of an ISO to the Exchange, the ETP Holder routes one or more additional Limit Orders, as necessary, to trade against the full displayed size of any protected bids (for sell orders) or protected offers (for buy orders) on Away Markets. These additional routed orders must be identified as ISO.”

Finally, NYSE Chicago Article 6, Rules 5(a) provides that “[e]very Participant is responsible for reasonably supervising its associated persons to prevent such violations [of the Securities Exchange Act of 1934, rules or regulation thereunder, or the Bylaws or Rules of the Exchange].” NYSE Chicago Article 6, Rule 5(c) provides that “[e]ach Participant Firm shall establish, maintain and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of registered and associated persons. Such written procedures must be reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable rules of the Exchange.”

B. HSBC violated Rule 611(c) of Regulation NMS and NYSE Chicago Rule 7.31(e)(3)

As discussed above, between July 2017 and September 2020, three technical issues with HSBC’s vendor’s smart order router resulted in the Firm sending a total of 10,265 ISO orders, including 17 orders to NYSE Chicago, that were priced through other market centers’ protected liquidity because the firm did not route the additional ISOs necessary to execute against those protected quotes. HSBC did not detect these issues because the firm did not take reasonable steps to establish that the ISOs it routed met the requirements set forth in Rules 600(b)(30) and 600(b)(31). Specifically, the Firm did not conduct reviews designed to verify that it routed all necessary ISOs to execute against protected quotations. Thus, for the aforementioned reasons, HSBC violated Rule 611(c) and NYSE Chicago Rule 7.31(e)(3).

C. HSBC’s supervisory system was not reasonably designed to comply with Rule 611 of Regulation NMS and NYSE Chicago Rule 7.31(e)(3).

Between July 2017 and September 2020, HSBC had no supervisory reviews or procedures to establish that ISOs it routed to comply with Rules 600(b)(30) and 600(b)(31) of Regulation NMS by executing against protected quotations were sent and received by all necessary venues, on a timely basis, for the correct size and price. 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. HSBC has since remediated these deficiencies.

Thus, for the aforementioned reasons, the Firm violated NYSE Chicago Article 6, Rules 5(a) and (c).

VI.

RELEVANT DISCIPLINARY HISTORY

The Firm does not have any relevant disciplinary history.

VII.

SANCTION

In view of the foregoing, the Exchange deems it appropriate to censure and fine HSBC nine thousand eight hundred and four dollars (\$9,804.00) (resolved simultaneously with similar matters for a total fine of \$125,000).² Payment of this amount shall be due no later than the 15th day following the issuance of this Order.

NYSE CHICAGO, INC.

By:  Date: 6/16/22
Jaime L. Klima
Chief Regulatory Officer

² Those matters were brought by 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 Arca, Inc. (Arca); NYSE American LLC (NYSE American) (collectively, the Exchanges), and FINRA.