

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2013038726101**

TO: Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: Credit Suisse Securities (USA) LLC, Respondent
FINRA Member Firm
CRD No. 816

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Credit Suisse Securities (USA) LLC ("CSSU," "the firm" or "Respondent") 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 herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent hereby accepts and consents, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

CSSU has been a registered broker-dealer since 1936. CSSU is a full-service global investment bank and multi-service brokerage firm with its headquarters in New York City. The firm is wholly owned by Credit Suisse (USA) Inc., which in turn is ultimately owned by Credit Suisse Group AG, a multinational financial services holding company headquartered in Switzerland. CSSU currently employs approximately 3,000 registered persons.

RELEVANT DISCIPLINARY HISTORY

CSSU has no relevant disciplinary history.

OVERVIEW

During the period January 2011 to December 2015 (the “relevant period”), CSSU had significant deficiencies in its anti-money laundering (“AML”) program, principally related to its ability to adequately surveil potentially suspicious trading and money movements.

From the beginning of the relevant period through September 30, 2013, the firm failed to effectively review trading from an AML standpoint. Certain potentially suspicious trading was not escalated to AML Compliance so that the firm could investigate and determine, as it was required to do, whether Suspicious Activity Reports (“SARs”) needed to be filed. The trading at issue included suspicious microcap stock transactions and sales of unregistered securities. Thereafter, CSSU implemented additional procedures and controls limiting the trading of microcap securities.

In addition, for the entire relevant period, CSSU relied on an automated surveillance system to monitor client activity for potentially suspicious money and securities transfers, using “scenarios” that the firm chose to implement. But CSSU failed to effectively implement the scenarios that it chose to use, and it failed to implement other available scenarios designed to identify several other common suspicious patterns or activities. Further, when its scenarios triggered an alert, CSSU did not always adequately review and investigate the activity. Although CSSU engaged a consulting firm in 2012 to evaluate its automated surveillance system and then undertook efforts to implement the consulting firm’s recommendations, some of the inadequacies in CSSU’s implementation of the automated surveillance system remain outstanding.

During the relevant period, the firm also failed to establish, maintain, and enforce an adequate supervisory system, including written supervisory procedures, reasonably designed to ensure compliance with Section 5 of the Securities Act of 1933 (“Section 5”) and the applicable rules and regulations. As a result, CSSU participated in certain instances in the distribution of unregistered microcap securities through both its investing banking business (“IB”) and its private banking business (“PB”).¹

Finally, from the beginning of the relevant period through September 30, 2013, CSSU failed to conduct adequate due diligence on correspondent accounts of certain foreign financial institutions (“FFIs”) that were its affiliates, and it failed to conduct enhanced due diligence of correspondent accounts of certain foreign banks that were also its affiliates, as required by the Bank Secrecy Act and implementing regulations. Although CSSU was aware of the nature of its affiliates’ business and activity, it failed to apply its due diligence program to these correspondent accounts, as required.

By reason of the foregoing, CSSU violated FINRA Rules 3310(a) and (b), 3110 and 2010 and NASD Rule 3010.

¹ On October 21, 2015, Credit Suisse Group AG announced that the PB would oversee a gradual transition of its relationship managers and customer accounts to other registered broker-dealers. On March 31, 2016, the PB ceased business-as-usual operations serving brokerage and investment advisory clients.

FACTS AND VIOLATIVE CONDUCT

A. Background

Credit Suisse Group AG is a global financial services company with subsidiaries around the world. CSSU is its U.S. based broker-dealer.

B. AML Deficiencies Relating to Potentially Suspicious Trading

CSSU's AML procedures were set forth in the Credit Suisse Group AG's Global AML Policy and a U.S. Money Laundering Prevention Supplement. The firm's policies placed the primary responsibility on the registered representatives who were the primary contact with the customers to identify and report to AML Compliance activity or transactions that were unusual or suspicious based on the "red flags" described in the policies. AML Compliance was then required to investigate the potentially suspicious activity, document their findings, and file SARs where appropriate. The firm described its procedures as a "lines of defense" strategy that, in theory, was intended to provide overlapping layers of protection.

As a practical matter, however, the firm did not have an effective system in place to review trading for suspicious activity. The systems and procedures used by the firm to monitor trading for other purposes were not designed to detect potentially suspicious activity from an AML perspective. Other departments and branches did not assume responsibility for reviewing trading for AML reporting purposes. As a result, in certain instances CSSU did not investigate trading adequately to assess whether a SAR should be filed.

As it relates to the PB, the trading activity of Customer X, a New York-based hedge fund, illustrates the deficiencies in the firm's systems. Customer X's trading followed patterns commonly associated with microcap fraud, such as securities deposited, quickly sold and proceeds wired out of the account shortly thereafter. However, no one at CSSU reviewed activity in Customer X's account for AML purposes, and CSSU did not employ an automated scenario designed to detect the type of potentially suspicious activity engaged in by Customer X.

Even after the PB's clearing firm contacted CSSU regarding Customer X's microcap trading at least three times between November 2012 and June 2013, CSSU failed to document any AML investigation into the activity. Ultimately the Customer X account was closed after the clearing firm indicated it would no longer clear the customer's transactions.

As it relates to the IB, the firm failed to conduct an adequate AML review of sales of microcap securities by IB customers, particularly microcap sales on behalf of customers of a CSSU affiliate located in a bank secrecy jurisdiction that maintained an omnibus account with the IB. Despite the firm's reliance on sales traders to detect and escalate potentially suspicious activity, most of the affiliate's order flow came into the firm electronically and was not seen by the CSSU sales traders. CSSU improperly relied on the sales traders at its affiliate to review the orders.

For example, based on a sampling of the affiliate's sales of microcap securities between January 1, 2011 and September 30, 2013, red flags were raised by the sales that should have caused

further investigation for AML purposes. On multiple occasions, the affiliate, acting on behalf of its omnibus account customers, sold a substantial number of shares of microcap securities during periods in which the issuers were the subject of promotional activities and during which the trading volume and stock price experienced dramatic spikes. This activity represented a significant percentage of the daily trading volume in the stock of numerous issuers on repeated occasions. At times, it accounted for 100 percent of the trading in a particular security. Other customers participated in similar activity. CSSU failed to detect and investigate the red flags triggered by these transactions and the activity was not escalated to the firm's AML Compliance department for further review.

The ability of firm AML Compliance analysts to adequately review alerts generated to detect suspicious activity was negatively impacted by the level of resources dedicated by the firm to AML surveillance. In addition, CSSU sometimes failed to document that it was adequately reviewing the alerts that were generated and the results of its investigations.

FINRA Rule 3310 requires all member firms to "develop and implement a written anti-money laundering program reasonably designed to achieve and monitor the firm's compliance with the requirements of the Bank Secrecy Act (31 U.S.C. § 5311, et seq.), and the implementing regulations promulgated thereunder by the Department of the Treasury."

Title 31 U.S.C. § 5318(g) authorizes the Department of the Treasury to issue suspicious activity reporting requirements for broker-dealers. The Department of the Treasury issued the implementing regulation, 31 C.F.R., § 103.19(a)(1), on July 1, 2002. It provided that, with respect to any transaction after December 30, 2002, "[e]very broker or dealer in securities within the United States . . . shall file with FinCEN . . . a report of any suspicious transaction relevant to a possible violation of law or regulation." Section (a)(2) of that regulation specifically provides:

A transaction requires reporting . . . if it is conducted or attempted by, at, or through a broker-dealer, it involves or aggregates funds or other assets of at least \$5,000, and the broker-dealer knows, suspects, or has reason to suspect that the transaction (or a pattern of transactions of which the transaction is a part):

- (i) Involves funds derived from illegal activity or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity (including, without limitation, the ownership, nature, source, location, or control of such funds or assets) as part of a plan to violate or evade any federal law or regulation or to avoid any transaction reporting requirement under federal law or regulation;
- (ii) Is designed, whether through structuring or other means, to evade any requirements of this part or of any other regulations promulgated under the Bank Secrecy Act, . . . ;
- (iii) Has no business or apparent lawful purpose or is not the sort in which the particular customer would normally be expected to engage, and the broker-dealer knows of no reasonable explanation for the transaction after examining the

available facts, including the background and possible purpose of the transaction;
or

(iv) Involves use of the broker-dealer to facilitate criminal activity.

In April 2002, FINRA issued Notice to Members (“NTM”) 02-21, which reminded broker-dealers that they were required to establish and implement AML programs designed to achieve compliance with the Bank Secrecy Act and the regulations promulgated thereunder. The Notice further advised broker-dealers that their AML procedures must address a number of areas including monitoring of account activities, “including but not limited to, trading and the flow of money into and out of accounts.” In August 2002, FINRA issued NTM 02-47, which set forth the suspicious activity reporting rule promulgated by the U.S. Department of the Treasury for the securities industry. This NTM further advised broker-dealers of their duty to file a SAR for any suspicious transactions occurring after December 30, 2002.

As described above, CSSU failed to establish and implement AML policies and procedures that were reasonably designed to detect and cause the reporting of suspicious transactions.

By virtue of the foregoing conduct, Respondent CSSU violated FINRA Rules 3310(a) and 2010.

C. AML Deficiencies Relating to Potentially Suspicious Money and Securities Transfers

CSSU used an automated surveillance system as an important component of its AML Compliance program to monitor for potentially suspicious activity.² The automated system flags activity for review utilizing “scenarios” selected by users. At CSSU, the way the firm used its automated system was not reasonably designed to detect and cause the reporting of suspicious money movements and securities transfers.

CSSU failed to ensure that the data that was being fed into the automated systems – and that was used to calculate the values to determine whether they met the thresholds for the scenarios – was adequate. A significant portion of the data feeds into the automated system were missing data, were providing information that led to the use of inaccurate risk scores, were providing duplicate data that resulted in the more accurate data being rejected, or were not formatted in a manner that permitted the automated system to monitor transactions effectively.

CSSU also did not properly calibrate the thresholds that it used for certain scenarios to ensure that they were effective at detecting suspicious activity, and its testing of its automated surveillance system was not sufficient to ensure that suspicious activity was not going undetected. In some instances, CSSU set the thresholds for its scenarios too high, which reduced the number of alerts.

As a result of CSSU’s failure to properly implement the automated surveillance system, CSSU did not effectively monitor transactions for red flags based on the risk presented by the product

² During the relevant time period, CSSU utilized Oracle’s Mantas Anti-Money Laundering software.

associated with the transaction, the counterparty to the transaction, the other external entities involved in the transaction, and the external geographies associated with the transaction. CSSU also failed to effectively monitor transactions for red flags based on the risks presented by the specific CSSU customer, account, and geography. In addition, a meaningful portion of customer transactions were not effectively monitored by the automated surveillance system, or were ineffectively monitored in aggregate, because key identifying information was missing for certain customers in the data feeds.

CSSU's implementation of the automated system also should have included available scenarios that were designed to identify common suspicious activities that were applicable to the money-laundering risks presented by CSSU's business. The firm had no other systematic way to monitor for these activities. In particular, the firm failed to implement scenarios that were specifically designed to identify deposits or withdrawals in same or similar amounts, transactions associated with high risk geographies, round dollar transactions, significant changes in transaction activity, offsetting trades,³ and the movements of funds without corresponding trade activity.

During the relevant period, the firm also failed to devote sufficient resources to investigating alerts generated by the automated system. The number of analysts employed by the firm at any given time (ranging from 3 to 5) did not have the ability to adequately review the tens of thousands of alerts generated in any given year.

In 2011 and 2012, CSSU self-identified certain deficiencies in its automated system and subsequently engaged a well-known consulting firm to review its implementation. In December 2013, the consulting firm issued a detailed report identifying numerous inadequacies in the firm's implementation of the automated system. Although CSSU developed a plan to fully remediate the issues identified by the consultant, and in 2015 retained additional consultants to help improve the system, it initially failed to devote adequate resources and funding to resolve the issues identified by the consulting firm in an adequately timely fashion. In some instances, CSSU implemented insufficient interim measures when it should instead have taken appropriate and more timely steps to improve data quality. Many of the deficiencies in CSSU's implementation of its automated system remained unresolved until 2016, and some remain unresolved.

By virtue of the foregoing conduct, Respondent CSSU violated FINRA Rules 3310(a) and 2010.

D. Deficiencies Relating to Section 5

Supervision

During the relevant period, certain CSSU IB and PB customers deposited and sold microcap shares through the firm, which should have raised red flags indicating that the shares potentially were not registered or subject to an exemption. These included that: (i) the transactions involved

³ Although the firm utilized other systems that monitored offsetting trades, it did not do so from an AML perspective.

penny stocks for which no registration statement was in effect for the sale, (ii) there was a sudden spike in investor demand for, coupled with a rising price in, thinly traded or low-priced securities, (iii) the companies were shell companies when they issued the shares, (iv) the issuers' SEC filings were not current, incomplete or non-existent, and (v) there was limited public information available about the issuers or most of the information available about the issuers was derived from questionable press releases.

CSSU failed to establish adequate written supervisory procedures to fulfill its obligations to conduct a searching inquiry, prior to executing any trades in microcap securities, to determine whether those securities were registered or subject to an exemption from registration. Specifically, the firm's procedures failed to instruct its employees how to inquire, in the face of red flags, as to whether the shares were actually subject to a restriction.

For example, the procedures did not provide guidance on how employees were to determine the owner of securities or the manner in which the securities were obtained. The written procedures did not provide guidance on determining whether securities not marked with a restrictive legend were otherwise restricted and did not provide guidance related to the sale of restricted securities by DVP/RVP accounts. For microcap business conducted via electronic deposit or DVP/RVP accounts, the policies gave no effective guidance to the people tasked with spotting and elevating the issue.

The firm also failed to establish, maintain, and enforce a supervisory system reasonably designed to ensure compliance with Section 5 and the applicable rules and regulations. PB representatives and branch administrative managers generally only applied the policies to securities marked with a restrictive legend, which is not relevant to electronic deposits. The IB staff was not given sufficient guidance with regard to how they were expected to review activity for red flags of unregistered distributions within client orders and trading. The IB staff did not determine the true beneficial owner of microcap securities sold, how the securities were acquired, or whether they were freely tradable, or make inquiries to its affiliates about the underlying customers for IB trades or how securities were obtained.

Microcap activity accounted for approximately \$10.4 million in commissions to the firm from 2011 through 2013. In 33 sampled accounts examined by FINRA staff, approximately 3.7 billion shares of various microcap issuers for a total of over \$143 million were sold between January 2011 and September 2013.

By virtue of the foregoing conduct, Respondent CSSU violated NASD Rule 3010 (for conduct occurring prior to December 1, 2014), FINRA Rule 3110 (for conduct occurring on or after December 1, 2014) and FINRA Rule 2010.

Section 5

Section 5 provides in relevant part that, unless a registration statement is in effect, it is unlawful to sell a security through the use of any means or instrumentality of transportation or communication in interstate commerce or of the mails.

As a result of the firm's failure to establish and implement reasonable supervisory controls designed to ensure compliance with Section 5, CSSU facilitated the illegal distribution of at least 55 million unregistered shares of securities for customers from the beginning of the relevant period through March 2013.⁴ These sales occurred through both the IB and the PB.

The firm participated in the distribution of unregistered shares in the IB on behalf of the affiliate located in the bank secrecy jurisdiction in at least three different securities in 2011 and 2012. In each situation the issuers were shell companies and were the subject of promotional campaigns while the affiliate was selling the stock. CSSU's sales for the affiliate often comprised a material percentage of the securities' daily trading volume, up to 100 percent of the daily volume. CSSU made no inquiry as to registration or exemptions applicable to these shares, instead relying solely on the policies in place at its affiliates that required determination of whether potentially restricted shares could be sold.

CSSU also participated in the distribution of unregistered shares in the PB on behalf of three customers who collectively deposited and sold approximately 42 million F shares during the period January 1, 2013 through March 21, 2013 in the U.S. market. No SEC registration statement was in effect for the shares. The firm again made no inquiry as to registration or exemptions applicable to these shares.

By virtue of the foregoing conduct, Respondent CSSU acted in contravention of Section 5 of the Securities Act and thus violated FINRA Rule 2010.

E. Deficiencies Relating to Foreign Financial Institutions

FINRA Rule 3310(b) requires a member firm to establish and implement policies and procedures and internal controls reasonably designed to achieve compliance with the Bank Secrecy Act and implementing regulations, including 31 C.F.R. §1010.610.

Under 31 C.F.R. §1010.610(a), FINRA member firms are required to apply risk-based procedures and controls to each correspondent account for FFIs reasonably designed to detect and report known or suspected money laundering, including a periodic review of account activity sufficient to determine consistency with information obtained about the type, purpose, and anticipated activity of the account.

Additionally, under 31 C.F.R. §1010.610(b), FINRA member firms are required to conduct enhanced scrutiny of correspondent accounts for certain foreign banks, including: (i) monitoring transactions to, from, or through the correspondent account in a manner reasonably designed to detect money laundering and suspicious activity; and (ii) determining whether the foreign bank in turn maintains correspondent accounts for other foreign banks that use the established account

⁴ CSSU subsequently implemented additional procedures limiting the trading of microcap securities. For example, in 2014 the firm began post-trade reviews of IB customers' sales of low-priced securities. In early 2015 the firm put in place various blocks limiting the ability of IB customers to deposit or trade low-priced securities, and in early 2016 the firm implemented new policies concerning IB customers' ability to deposit or trade low-priced securities. In early 2016 the firm put in place additional surveillance and blocks preventing PB customers from selling certain low-priced securities without approval from Compliance and AML Compliance.

and, if so, take reasonable steps to assess and mitigate AML risks associated with the foreign bank's correspondent accounts.

Although CSSU was aware of the nature of its affiliates' business and activity, it failed to apply its due diligence program to these correspondent accounts, as required. From the beginning of the relevant period through September 30, 2013, CSSU failed to evidence adequate due diligence on correspondent accounts for affiliates that held accounts within the IB. CSSU did not perform the required periodic reviews of the accounts or the activity in them to determine whether the activity was consistent with that anticipated at account opening. The firm also failed to evidence enhanced due diligence of certain correspondent accounts as required.

By virtue of the foregoing conduct, Respondent CSSU violated FINRA Rules 3310(b) and 2010.

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

1. A censure; and
2. A fine of \$16.5 million.

CSSU further agrees to certify to FINRA Enforcement, within 90 days of the issuance of this AWC, in a writing signed by an officer of CSSU, that: (i) it has adopted and implemented written supervisory policies and procedures reasonably designed to address each of the issues identified in this AWC, (ii) it has implemented a detailed plan and fully allocated funding and resources to fully remediate, by no later than September 1, 2017, each of the issues identified in the report prepared by the consulting firm described above, and (iii) after all required items are remediated, and by no later than December 31, 2017, it will complete a risk-based look-back of past money and securities movements reasonably designed to detect and cause the reporting of suspicious transactions. The certification shall be submitted by letter addressed to Jeffrey P. Bloom, Senior Special Counsel and Thomas S. Kimbrell, Senior Counsel FINRA's Department of Enforcement, 15200 Omega Drive, 3rd Floor, Rockville, MD 20850. FINRA staff can extend the deadline set forth above for good cause upon written request from the firm.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. CSSU 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 that it is unable to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

II.

WAIVER OF PROCEDURAL RIGHTS

CSSU 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, CSSU 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 acceptance or rejection of this AWC.

CSSU 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 it; and
- C. If accepted:

1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against it;
 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 the subject matter thereof 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 its: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- 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 or its staff.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on its 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 its provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce Respondent to submit it.

Credit Suisse Securities (USA) LLC

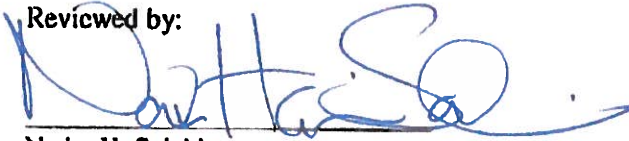
By: Alex Reich

Name: [Signature]

Title: Managing Director

Date: 11/28/16

Reviewed by:



Nader H. Salchi
Geoffrey F. Aronow
Paul M. Tyrrell
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Accepted by FINRA:

12/5/16

Date

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



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