



CIRO · OCRI

Canadian Investment
Regulatory
Organization

Organisme canadien
de réglementation
des investissements

**IN THE MATTER OF
THE INVESTMENT DEALER AND PARTIALLY CONSOLIDATED RULES
AND THE DEALER MEMBER RULES
AND
HSBC SECURITIES (CANADA) INC.**

SETTLEMENT AGREEMENT

PART I – INTRODUCTION

1. The Canadian Investment Regulatory Organization (“CIRO”)¹ will issue a Notice of Application to announce a settlement hearing pursuant to sections 8215 and 8428 of the Investment Dealer and Partially Consolidated Rules (the “Investment Dealer Rules”) to consider whether a hearing panel should accept this Settlement Agreement between Enforcement Staff and HSBC Securities (Canada) Inc. (the “Respondent”).

PART II – JOINT SETTLEMENT RECOMMENDATION

2. Enforcement Staff and the Respondent jointly recommend that the hearing panel accept this Settlement Agreement in accordance with the terms and conditions set out below.

PART III – AGREED FACTS

3. For the purposes of this Settlement Agreement, the Respondent agrees with the facts as set out in Part III of this Settlement Agreement.

Registration History

4. HSBC Securities (Canada) Inc. is a Dealer Member of CIRO with its head office located in Toronto, Ontario.

Overview

5. In March 2023, the Respondent self-reported to CIRO that HSBC InvestDirect (“HIDC”), the order-execution-only division of HSBC Securities (Canada) Inc. (“HSBC”), had charged incorrect fees in certain client accounts due to inadvertent discrepancies in the classification of clients between different business unit record systems.
6. It was later determined by the Respondent that between October 2018 and December 2022, it charged approximately 1,234 clients excess fees for a total of roughly \$198,674.
7. The Respondent voluntarily reported the incorrect fees issue to CIRO and has made diligent efforts to remediate the issue by compensating clients and implementing additional internal protocols to ensure that the appropriate fees are charged on a going forward basis.

Identification of the Fee Issue and the Internal Discrepancies

8. One type of client classification offered by the Respondent is called “Premier.” This unique customer tier designation enabled clients, who qualified, to receive certain advantages including the waiver of inactivity fees, account maintenance fees, and annual administration fees in their brokerage accounts. Other benefits of the “Premier” client classification included favourable margin debit interest rates and lower trading commissions.
9. An internal audit of HIDC in December 2022 revealed that discrepancies existed between HIDC’s Information Systems Management (“ISM”), and HSBC Bank’s Core Banking System (“CBS”) regarding the “Premier” classification of clients. Certain clients that qualified as “Premier” were not correctly coded as such in HIDC’s ISM system. This inconsistency resulted in some clients paying excess fees to the benefit of the Respondent.

10. At all material times, the Respondent had relied on manual updates between HIDC's ISM and HSBC Bank's CBS. A regularly scheduled reconciliation process had not been implemented which led to the incorrect charging of client fees.
11. In total, between October 2018 and December 2022, approximately 1,234 clients, in around 1,252 client accounts, paid excess fees totaling roughly \$198,674.

Self-Reporting Process

12. In approximately December 2022, as a result of the aforementioned internal audit process, the Respondent discovered potential inconsistencies in the systems outlined above.
13. After an investigation to determine the scope of the matter, in March 2023, HIDC's Chief Compliance Officer (CCO) initiated a meeting with CIRO's Business Conduct Compliance relationship manager to self-report this matter.
14. In April 2023, the Respondent provided CIRO with a formal letter outlining the particulars of the incorrect charging of fees in client accounts issue.

Remedial Steps Taken By the Respondent

15. The Respondent has remediated the incorrect charging of fees in client accounts by compensating clients who were erroneously overcharged fees and by implementing new business controls to address the underlying issue. Furthermore, the Respondent has chosen not to charge additional fees to clients who were inadvertently undercharged.

i) Client Remediation

16. The Respondent communicated the incorrect charging of fees issue to clients. For existing HIDC clients, the Respondent communicated with them by sending a direct

secured message on the HIDC online platform. Where an individual was no longer an HIDC client, letters were mailed to clients.

17. Between June 13 and 14, 2023, the Respondent processed client rebates totaling approximately \$198,674. For existing clients of HIDC, direct credit was paid to their account. Direct credit was also paid to clients who no longer had an HIDC account, but still maintained their HSBC bank account. Finally, where individuals no longer held a HIDC or HSBC Bank account, the Respondent mailed cheques to the address listed on file.
18. On June 16, 2023, the HIDC Risk Control team completed the review of accounts that received the rebate to ensure that the rebate amount and the description of the rebate were correct.
19. No subsequent issues have been reported.

ii) Fees Issue Remediation

20. In January 2023, the Respondent implemented an interim manual solution to enhance the reconciliation of the ISM and CBS systems, in order to ensure that the issue did not continue. Specifically, the Respondent implemented an additional quarterly reconciliation of client classifications on HIDC's ISM and HSBC Bank's CBS profiles. This reconciliation process was undertaken prior to any fees being charged to ensure that client classification records are consistent on both internal systems and to ensure that correct fees are charged.
21. The Respondent has now implemented an automated solution to identify any client classification changes. A new automated report will identify any client classification changes and then notify the HIDC operations team who will accordingly update the proper client classification status on ISM.

Additional Factors

22. The Respondent promptly and in a detailed manner self-identified the issues, volunteered substantial assistance to Staff by promptly sharing the results and details of its internal investigation, and voluntarily developed and implemented a remediation plan, as outlined above.
23. The Respondent's control deficiency was inadvertent. There is no suggestion that the Respondent deliberately charged clients incorrect fees.
24. The Respondent has compensated clients and has made necessary payments to ensure that it receives no profit or benefit from its inadvertent control deficiency.
25. The Respondent discovered its control deficiency as a result of its own audit processes and self-reported it to CISO promptly.
26. Enforcement Staff has agreed to a 30% reduction of the fine it would otherwise have agreed to based on the proactive and exceptional cooperation by the Respondent, the remediation measures implemented, the compensation paid to clients, and the Respondent's willingness to resolve this matter in a timely manner. These factors led to an early resolution of this matter.

PART IV – CONTRAVENTIONS

27. By engaging in the conduct described above, the Respondent committed the following contravention of CISO requirements:

Between October 2018 and December 2022, the Respondent failed to establish and maintain a system of controls and supervision to ensure client fee agreements were accurately recorded in its fee management systems and that clients were charged appropriately, contrary to Dealer Member Rules 38.1 and 2500.

PART V – TERMS OF SETTLEMENT

28. The Respondent agrees to the following sanctions and costs:
- (i) A fine in the amount of \$52,500; and
 - (ii) Costs in the amount of \$5,000.
29. If this Settlement Agreement is accepted by the hearing panel, the Respondent agrees to pay the amounts referred to above within 30 days of such acceptance unless otherwise agreed between Enforcement Staff and the Respondent.

PART VI – STAFF COMMITMENT

30. If the hearing panel accepts this Settlement Agreement, Enforcement Staff will not initiate any further action against the Respondent in relation to the facts set out in Part III and the contraventions in Part IV of this Settlement Agreement, subject to the provisions of the paragraph below.
31. If the hearing panel accepts this Settlement Agreement and the Respondent fails to comply with any of the terms of this Settlement Agreement, Enforcement Staff may bring proceedings under Investment Dealer Rule 8200 against the Respondent. These proceedings may be based on, but are not limited to, the facts set out in Part III of this Settlement Agreement.

PART VII – PROCEDURE FOR ACCEPTANCE OF SETTLEMENT

32. This Settlement Agreement is conditional on acceptance by the hearing panel.
33. This Settlement Agreement shall be presented to a hearing panel at a settlement hearing in accordance with sections 8215 and 8428 of the Investment Dealer Rules, in addition to any other procedures that may be agreed upon between the parties.

34. Enforcement Staff and the Respondent agree that this Settlement Agreement will form all the agreed facts that will be submitted at the settlement hearing, unless the parties agree that additional facts should be submitted at the settlement hearing. If the Respondent does not appear at the settlement hearing, Staff may disclose additional relevant facts, if requested by the hearing panel.
35. If the hearing panel accepts this Settlement Agreement, the Respondent agrees to waive all rights under the Rules of CIRO and any applicable legislation to any further hearing, appeal and review.
36. If the hearing panel rejects this Settlement Agreement, Enforcement Staff and the Respondent may enter into another settlement agreement or Enforcement Staff may proceed to a disciplinary hearing based on the same or related allegations.
37. The terms of this Settlement Agreement are confidential unless and until this Settlement Agreement has been accepted by the hearing panel.
38. This Settlement Agreement will become available to the public upon its acceptance by the hearing panel and CIRO will post a copy of this Settlement Agreement on the CIRO website. CIRO will publish a notice and news release of the facts, contraventions, and the sanctions agreed upon in this Settlement Agreement and the hearing panel's written reasons for its decision to accept this Settlement Agreement.
39. If this Settlement Agreement is accepted, the Respondent agrees that neither they nor anyone on their behalf, will make a public statement inconsistent with this Settlement Agreement.
40. This Settlement Agreement is effective and binding upon the Respondent and Enforcement Staff as of the date of its acceptance by the hearing panel.

PART VIII – EXECUTION OF SETTLEMENT AGREEMENT

41. This Settlement Agreement may be signed in one or more counterparts which together will constitute a binding agreement.
42. An electronic copy of any signature will be treated as an original signature.

DATED this “29th” day of “November”, 2023.

“Sarah Shody”
Witness

“Jeff Brown”
Respondent

“Michael Mantle”
Michael A. M. Mantle
Enforcement Counsel on behalf of
Enforcement Staff of the
Canadian Investment Regulatory
Organization

The Settlement Agreement is hereby accepted this “15” day of “December”, 2023 by the following Hearing panel:

Per: “Barry Bresner”
Chair

Per: “Debbie Archer”
Industry Member

Per: “Zahra Bhutani”
Industry Member

¹ The Canadian Investment Regulatory Organization (“CIRO”) has adopted interim rules that incorporate the pre-amalgamation regulatory requirements contained in the rules and policies of IIROC and the by-law, rules and policies of the MFDA (the “Interim Rules”). The Interim Rules include (i) the Investment Dealer and Partially Consolidated Rules, (ii) the UMIR and (iii) the Mutual Fund Dealer Rules. These rules are largely based on the rules of IIROC and the rules and certain by-laws and policies of the MFDA that were in force immediately prior to amalgamation. Where the rules of IIROC and the rules and by-laws and policies of the MFDA that were in force immediately prior to amalgamation have been incorporated into the Interim Rules, Enforcement Staff have referenced the relevant section of the Interim Rules.

Section 1105 (Transitional provision) of the Investment Dealer and Partially Consolidated Rules sets out CIRO’s continuing jurisdiction, including that CIRO shall continue the regulation of any person subject to the jurisdiction of the Investment Industry Regulatory Organization of Canada that was formerly conducted by the Investment Industry Regulatory Organization of Canada.