THE NASDAQ OPTIONS MARKET LLC
NOTICE OF ACCEPTANCE OF AWC

Certified, Return Receipt Requested

TO: **Credit Suisse Securities (USA) LLC**
Mr. Alan Reifenberg
Managing Director
11 Madison Avenue
New York, NY 10010

FROM: The NASDAQ Options Market LLC ("Nasdaq")
c/o Financial Industry Regulatory Authority ("FINRA")
Department of Market Regulation
9509 Key West Avenue
Rockville, MD 20850
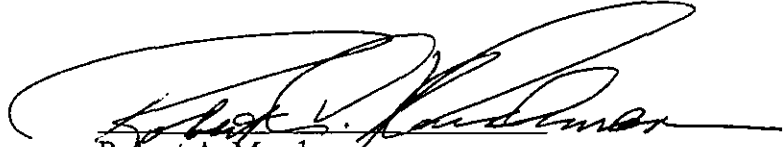
DATE: October 15, 2015

RE: <u>Notice of Acceptance of Letter of Acceptance, Waiver and Consent No. **20110292793-01**</u>

Please be advised that your above-referenced Letter of Acceptance, Waiver and Consent ("AWC") has been accepted on **October 14, 2015** by the Nasdaq Review Council's Review Subcommittee, or by the Office of Disciplinary Affairs on behalf of the Nasdaq Review Council, pursuant to Nasdaq Rule 9216. A copy of the AWC is enclosed herewith.

You are again reminded of your obligation, if currently registered, immediately to update your Uniform Application for Broker-Dealer Registration ("Form BD") to reflect the conclusion of this disciplinary action. Additionally, you must also notify FINRA (or Nasdaq if you are not a member of FINRA) in writing of any change of address or other changes required to be made to your Form BD.

You will be notified by the Registration and Disclosure Department regarding sanctions, and Nasdaq's Finance Department will send you an invoice regarding the payment of any fine.

If you have any questions concerning this matter, please contact Eustace Francis, Senior Counsel, at (215) 209-7002.

Robert A. Marchman
Executive Vice President, Legal Section
Department of Market Regulation, FINRA

Signed on behalf of Nasdaq

Enclosure

FINRA District 9 – New Jersey
Michael Solomon, Senior Vice President and Regional Director
581 Main Street, 7th floor
Woodbridge, NJ 07095-1164

Nader H. Salehi, Esq.
Counsel for Respondent
Sidley Austin LLP
787 Seventh Avenue
New York, New York 10019

THE NASDAQ OPTIONS MARKET
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. _20110292793 - 01_

TO: The NASDAQ Options Market
        c/o Department of Market Regulation
        Financial Industry Regulatory Authority ("FINRA")

RE: Credit Suisse Securities (USA) LLC, Respondent
        Broker-Dealer
        CRD No. 816

Pursuant to Rule 9216 of The NASDAQ Stock Market LLC ("Nasdaq")[1] Code of Procedure, Credit Suisse Securities (USA) LLC (the "Firm" or "Credit Suisse") 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, Nasdaq will not bring any future actions against the Firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

A. Credit Suisse 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 Nasdaq, or to which Nasdaq 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 Nasdaq:

BACKGROUND

Credit Suisse has been a member of FINRA since October 16, 1935, and its registration remains in effect. The Firm was approved for NASDAQ Options Market LLC ("NOM") membership on July 12, 2006, and its registration remains in effect.

RELEVANT DISCIPLINARY HISTORY

Credit Suisse has the following relevant disciplinary history:

- On November 17, 2009, the Firm consented to a censure and a fine of $150,000 for violations of NYSE Rule 342 for failing to adequately supervise the development, deployment and operation of a proprietary algorithm, including failing to implement procedures to monitor certain modifications made to that algorithm, and for violations of NYSE Rule 401 for failing to adhere to principles

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[1] All NASDAQ Options Market disciplinary matters are governed by The Nasdaq Code of Procedure.

of good business practice in that: (i) the Firm's proprietary algorithm did not have appropriate checks designed to prevent submission of hundreds of thousands of erroneous messages or to alert the Firm in the event of rejected messages; (ii) the proprietary algorithm sent hundreds of thousands of cancel and replace requests for orders that had not been sent to the NYSE; and/or (iii) the firm failed to detect hundreds of thousands of cancel and replace requests and reject messages.

SUMMARY

This matter is the result of a review by FINRA's Market Regulation Department, on behalf of NOM, of Credit Suisse's algorithmic trading activities and related supervisory systems, procedures and controls for compliance with Rule 15c3-5 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Chapter III, Section 2(a) of the NOM Rules during the period between June 30, 2011 and September 5, 2012 (the "Review Period").

FACTS AND VIOLATIVE CONDUCT

Requirements of the Market Access Rule

1. By letter dated October 29, 2013, which the Firm received, the Legal Section ("Legal") of FINRA's Market Regulation Department, on behalf of NOM, notified the Firm that it was investigating whether the Firm had violated Rule 15c3-5 promulgated under the Exchange Act and Chapter III, Section 2(a) of the NOM Rules by transmitting excessive orders and/or quotations to NOM and by failing to implement and maintain risk management controls and supervisory procedures, including pre-order controls, reasonably designed to prevent the transmission of, and failing to supervise the Firm's former Automated Market Making Desk ("AMM Desk")[1] to ensure that it did not transmit, excessive orders and/or quotations to NOM.

2. As a result of its investigation, staff determined that the Firm's former AMM Desk failed to implement and maintain an adequate system of risk management controls and supervisory procedures, including pre-order controls and a system of follow-up and review, reasonably designed to (i) prevent the transmission of excessive orders and/or quotations; (ii) adequately supervise the deployment and operation of its algorithm, and to document the testing of the algorithm consistent with the Firm's written supervisory procedures ("WSPs"); and (iii) adopt and implement a supervisory system reasonably designed to address compliance with Rule 15c3-5.

3. On November 3, 2010, the Commission adopted Rule 15c3-5 (sometimes referred to as the "Market Access Rule") to address concerns relating to the growing practice of broker-dealers affording direct market access to customers. Rule 15c3-5 requires, among other things, a broker-dealer with market access to establish risk management controls and supervisory procedures that are reasonably designed to limit the financial exposure of the

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[1] The Firm's AMM Desk ceased operations in November 2012.

broker-dealer and ensure compliance with all regulatory requirements applicable to market access. Among other things, the controls and supervisory procedures must be reasonably designed to: (i) prevent the entry of erroneous orders, by rejecting orders that exceed appropriate price or size parameters, or that indicate duplicative orders; and (ii) prevent the entry of orders that are not in compliance with all regulatory requirements that must be satisfied on a pre-order entry basis. The controls and supervisory procedures mandated by Rule 15c3-5 must be under the direct and exclusive control of the broker-dealer. The compliance date for the relevant provisions of Rule 15c3-5 was July 14, 2011.

4. Rule 15c3-5(b) promulgated under the Exchange Act requires brokers and dealers with market access to "establish, document, and maintain a system of risk management controls and supervisory procedures reasonably designed to manage the financial, regulatory, and other risks of this business activity."

5. Rule 15c3-5(c) promulgated under the Exchange Act requires, among other things, that the risk management controls and supervisory procedures be reasonably designed to prevent the entry of erroneous or duplicative order and ensure compliance with all pre-trade regulatory requirements.

6. Chapter III, Section 2(a) of the NOM Rules requires Options Participants to maintain reasonable supervisory systems and controls, including a separate system of follow-up and reviews, as well as adequate WSPs.

7. During the Review Period, Credit Suisse was a broker-dealer with market access and, as such, was subject to the provisions of Rule 15c3-5 promulgated under the Exchange Act.

8. During the Review Period, Credit Suisse failed to adopt and maintain, on a pre-order basis or otherwise, an adequate system of risk management controls and supervisory procedures, including a system of follow-up and review, reasonably designed to: (i) prevent the entry of a high volume of orders and/or quotations; (ii) explicitly address Rule 15c3-5 promulgated under the Exchange Act; (iii) ensure compliance with the relevant provisions of Rule 15c3-5; and (iv) prevent the transmission of, and to supervise the algorithm to ensure that it did not transmit, an excessive number of orders or quotations to NOM.

9. For example, in approximately 8,100 instances during the Review Period, the majority of which stemmed from inadvertently operating throughout a single trading day in the opening rotation mode, the Firm's proprietary algorithm transmitted thousands of orders and/or quotations per second in various options series to NOM, resulting in minimal or no executions in those options series. The Firm did not detect, and at the time had no control in place to detect, the algorithm's high volume transmission of orders and/or quotations in the opening rotation mode.

10. Despite the Firm's pre-deployment testing of the algorithm, the Firm failed to preserve, or could not provide, evidence that it had tested the algorithm or any modifications to the

algorithm prior to its deployment, or that any such testing was reasonably designed to prevent or detect the algorithm's high volume transmission of orders and/or quotations while operating in the opening rotation mode or otherwise.

11. The conduct described in paragraphs nine and ten constitutes separate and distinct violations of Rules 15c3-5(b) and (c)(2) promulgated under the Exchange Act, and Chapter III, Section 2(a) of the NOM Rules.

Failure to Supervise

12. During the Review Period, Credit Suisse failed to reasonably supervise its proprietary algorithm to ensure that it did not transmit excessive orders and/or quotations to NOM.

13. The conduct described in paragraph twelve constitutes a violation of Chapter III, Section 2(a) of the NOM Rules.

B.   The Firm also consents to the imposition of the following sanctions:

A censure and a total fine of $250,000, of which $25,000 shall be paid to NOM.

Additionally, acceptance of this AWC is conditioned upon acceptance of parallel settlement agreements in related matters between the Firm and the following self-regulatory organizations: (i) NYSE Arca, Inc.; (ii) NYSE MKT LLC; and (iii) NASDAQ OMX PHLX LLC ("PHLX").

Credit Suisse agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. Credit Suisse has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Credit Suisse 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.

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

II.

WAIVER OF PROCEDURAL RIGHTS

Credit Suisse specifically and voluntarily waives the following rights granted under Nasdaq's Code of Procedure:

A.   To have a Formal Complaint issued specifying the allegations against the firm;

B.   To be notified of the Formal 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, Credit Suisse specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Regulatory Officer, the Nasdaq Review Council, or any member of the Nasdaq Review Council, 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.

Credit Suisse further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of 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

Credit Suisse 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 FINRA's Department of Market Regulation and the Nasdaq Review Council, the Review Subcommittee, or the Office of Disciplinary Affairs ("ODA"), pursuant to Nasdaq Rule 9216;

B.   If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Credit Suisse; and

C.   If accepted:

     1.   This AWC will become part of Credit Suisse's permanent disciplinary record and may be considered in any future actions brought by Nasdaq or any other regulator against the firm;

2. Nasdaq may release this AWC or make a public announcement concerning this agreement and the subject matter thereof in accordance with Nasdaq Rule 8310 and IM-8310-3; and

3. Credit Suisse 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. The firm may not take any position in any proceeding brought by or on behalf of Nasdaq, or to which Nasdaq is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects Credit Suisse's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which Nasdaq is not a party.

D. Credit Suisse may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Credit Suisse 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 Nasdaq, nor does it reflect the views of Nasdaq or its staff.

The undersigned, on behalf of Credit Suisse, 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 it has agreed to the AWC's 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 Credit Suisse to submit it.

August 20, 2015
Date

Respondent
Credit Suisse Securities (USA) LLC

By: _____

Name: _____
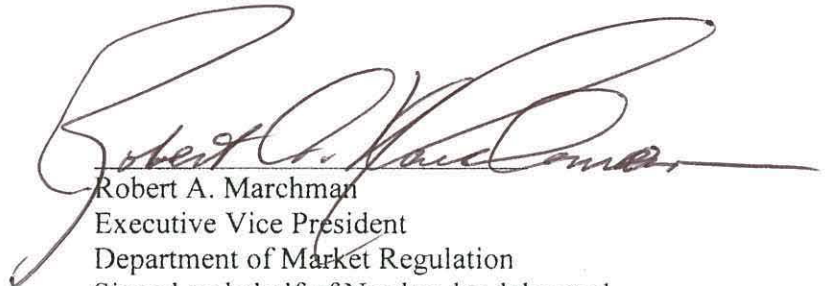
Title: _____

Reviewed by:

Nader Salehi, Esq.
Sidley Austin LLP
787 Seventh Avenue
New York, NY 10019
(212) 839-5338
nsalehi@sidley.com

Accepted by Nasdaq:

10/14/15
Date

Robert A. Marchman
Executive Vice President
Department of Market Regulation
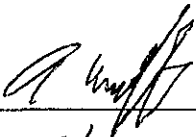Signed on behalf of Nasdaq, by delegated
authority from the Director of ODA

ELECTION OF PAYMENT FORM

Credit Suisse intends to pay the fine proposed in the attached AWC by the following method (check one):

☐   A firm check or bank check for the full amount;

☑   Wire transfer;

☐   The installment payment plan.[1]
        o   Monthly
        o   Quarterly

Respectfully submitted,
Respondent
Credit Suisse Securities (USA) LLC

August 20, 2015
Date

By: _____

Name: _Alan Reifenly_

Title: _Managing Director_

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[1] The installment payment plan is only available for a fine of $50,000 or more. Certain requirements apply.