



Notice of Disciplinary Action against Credit Suisse Securities (USA) LLC, Member Organization

To: Members, Member Organizations, Participants and Participant Organizations
From: John C. Pickford, Enforcement Counsel, NASDAQ OMX PHLXSM
DATE: October 15, 2015

Enforcement No. 2015-10
FINRA No. 20110292793
FINRA No. 20120335476

On September 21, 2015, the Business Conduct Committee (the "Committee") of the NASDAQ OMX PHLX LLC ("PHLX" or the "Exchange") issued a disciplinary decision against Credit Suisse Securities (USA) LLC ("Credit Suisse" or the "Firm"), a member organization of the Exchange. In response to a Statement of Charges issued in this action, Credit Suisse submitted an Offer of Settlement. Solely to settle this proceeding, and without admitting or denying the charges, Credit Suisse consented to findings that during the period between June 30, 2011 and September 5, 2012 (the "Review Period"), Credit Suisse violated Rules 15c3-5(b), (c)(1)(ii) and (c)(2)(i) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Exchange Rules 707 and 748(b), (d) and (g).

Specifically, Credit Suisse consented to findings that during the Review Period, but prior to the June 14, 2011 compliance date of Rules 15c3-5(b), 15c3-5(c)(1)(ii) and 15c3-5(c)(2)(i) promulgated under the Exchange Act (the "relevant provisions Rule 15c3-5"), it failed to: (i) adopt and implement adequate supervisory systems, controls and procedures to prevent the entry of excessive orders and/or quotations by its proprietary algorithm; (ii) comply or enforce compliance with its written supervisory procedures ("WSPs") requiring it to test its algorithm and modifications thereto; and (iii) ensure that the results of such testing were documented and preserved in accordance with the Firm's WSPs. For example, on June 30, 2011, Credit Suisse unintentionally transmitted approximately 2,847,128 Immediate or Cancel ("IOC") orders over an approximate one hour time period in a single option series to the PHLX, which resulted in the execution of only 11 contracts in the options series. Respondent did not detect, and at the time had no controls in place to detect, the high volume of orders.

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 high volume of orders.

As a result of the conduct set forth above, Credit Suisse violated Exchange Rules 707 and 748(b), (d) and (g).

Credit Suisse also consented to findings that during the Review Period, but after the compliance date of the relevant provisions of Rule 15c3-5 promulgated under the Exchange Act, it 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 the PHLX. For example, on July 21, 2011, as a result of the supervision-related deficiencies referenced above, Credit Suisse unintentionally transmitted more than 14 million IOC orders during a time period of several hours in a single option series to the PHLX, with no resulting executions in the option series. As a result of this conduct, Credit Suisse violated Rules 15c3-5(b), (c)(1)(ii) and (c)(2)(i) promulgated under the Exchange Act and Exchange Rules 707 and 748(b), (d) and (g).

The Committee found that Credit Suisse had violated Rules 15c3-5(b), (c)(1)(ii) and (c)(2)(i) promulgated under the Exchange Act and Exchange Rules 707 and 748(b), (d) and (g), concurred in the sanctions consented to by the Firm, and ordered the imposition of the following sanctions against Credit Suisse: (i) a censure; and (ii) a total fine in the amount of \$250,000, of which \$175,000 shall be paid to the PHLX.

For more information, contact:

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