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March 26, 2007

Electronic Submission

Nancy C. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Jennifer J. Johnson
Secretary
Board of Governors of the
Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, D.C. 20551

Re: *Definitions of Terms and Exemptions Relating to the "Broker" Exceptions for Banks; File No. S7-22-06; Docket No. R-1274; 71 Federal Register 77522, December 26, 2006;*

Re: *Exemptions for Banks Under Section 3(a)(5) of the Securities Exchange Act of 1934 and Related Rules; File No. S7-23-06; 71 Federal Register 77550, December 26, 2006.*

Dear Ms. Morris and Ms. Johnson:

HSBC Securities (USA) Inc. appreciates the opportunity to comment on the proposed Regulation R jointly issued by the Securities and Exchange Commission (Commission) and the Board of Governors of the Federal Reserve System (Board) (hereinafter referred collectively as "Agencies") to implement certain exceptions for banks from the definition of the term "broker" under Section 3(a)(4) of the Securities Exchange Act of 1934 (Exchange Act), as amended by the Gramm-Leach-Bliley Act (GLBA).

HSBC Securities (USA) Inc. is registered as a broker-dealer and investment adviser with the Securities and Exchange Commission ("SEC"), and is a member of the New York Stock Exchange ("NYSE") and NASD, Inc. ("NASD"). Among the various lines of business in which HSBC Securities (USA) Inc. engages is the offering of retail non deposit investment products on the premises of HSBC Bank USA, N.A. pursuant to a networking

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agreement. As such, HSBC Securities (USA) Inc. has reviewed with great interest the proposed Regulation R.

In general, we appreciate the steps that the Agencies have taken to come to consensus on rules that meet the interests of investors, the markets and the industry participants. We believe that, particularly with respecting to the networking exemption and its implementation, the Agencies have drafted regulations that provide the needed balance of regulation and flexibility for the provision of services to our customers. We believe that there are specific aspects of Regulation R as drafted that could be improved, and to that end we ask that you heed the comments of The American Bankers Association (ABA) and its affiliate, the ABA Securities Association (ABASA). We have participated with those organizations in their review of the proposed rules and believe that our comments on the Networking Exemption in particular are well articulated within the ABA/ABASA comment letter. Additionally, we ask that the Agencies heed the comments of the Securities Industry and Financial Markets Association's letter (the "SIFMA" letter), which emphasizes significant issues of interest for affected broker-dealers.

From the point of view of the broker-dealer that participates in a networking arrangement, we ask you to focus on a few areas covered within the ABA/ABASA letter and the SIFMA letter that are of special concern to us as emphasized below.

The Need to Address Dual Employees

We cannot over-emphasize the need to review the current regulatory rules that would, in our view, negate much of the benefit of GLBA's "functional regulation." As pointed out by ABA/ABASA, the proposal does not resolve the outstanding issue associated with persons employed concurrently by banks and broker-dealers (dual employees).

Clearly, under the "functional regulation" approach adopted under GLBA, the use of dual employees is anticipated to be an efficient, cost effective method for providing services consistent with GLBA and the differing requirements of the functional regulators. In fact, since August of 2001, ABASA and the Securities Industry Association (now known as "SIFMA") have been diligently calling to the attention of the Agencies and the NASD the need to review rules impacting the use of dual employees, such as NASD Conduct Rule 3040. Rule 3040, which was crafted and interpreted prior to GLBA, requires registered representatives involved in securities transactions outside of their employment and member firms to comply with certain notice, approval, record retention, and supervision requirements. Specifically, registered representatives must provide written notice to the employer member firm describing, in detail, each transaction it proposes to execute outside of the member firm, *i.e.*, in a bank. The employer member firm is required to approve transactions and monitor and supervise the employee's participation to the same extent as if the transactions were executed on behalf of the member firm itself.

We believe that it is very important for the NASD to clarify that NASD's Rule 3040 does not apply to these dual employees. Understandably, the NASD has not responded to

prior industry requests for such clarification or for amendment of Rule 3040 while the rules implementing the broker "push-out" provisions of GLBA were not yet final.

We understand that the Agencies have begun to consider the various issues associated with dual employees. We encourage the Agencies, working with the NASD, to resolve the issues sufficiently in advance of the eventual effective date for compliance with Regulation R, and we believe that the effort to combine the rules of the NYSE and the NASD in the coming months presents an opportunity to address situations such as this where historical rules may be inappropriately applied to situations that were never contemplated at the time of drafting. Understanding that the self-regulatory organizations are undergoing much change, we ask that this matter be given priority so that banks and broker-dealers can design in advance the business models for doing business under functional regulation. Time is necessary not only for banks to determine the appropriate dual employee program to establish at their institution that meets the individual bank's needs, but for the affiliated broker-dealer to anticipate and address the expanded supervisory responsibilities for which it will accept responsibility.

Inadvertent Expansion of NASD Suitability Requirements

The fact that this Regulation R proposal includes provisions tailored to referrals of high net worth and institutional investors is a very positive example of the Agencies' flexibility in crafting networking rules that meet differing situations. We appreciate the effort, and again point the Agencies to the ABA/ABASA letter and the SIFMA letter for details on ways these provisions could be improved. From the point of view of the affiliated broker-dealer, however, we would like to emphasize a particular point raised within both the ABA/ABASA letter and the SIFMA letter. Specifically, we ask that Regulation R not be used to expand suitability requirements beyond those currently in place for broker-dealers.

Proposed Rule 701 conditions the exemption from paying nominal referral fees for high net worth and institutional customer referrals on the existence of a written agreement between the bank and the broker-dealer that provides, among other things, that in any case where the payment of a referral fee to a bank employee is contingent on the completion of a securities transaction, the broker-dealer must perform a suitability analysis regarding the securities transaction at issue. We strongly object to this requirement. Suitability analyses should only be required in accordance with the rules of the self-regulatory organizations (SRO's) and those rules do not require performance of suitability analyses on transactions that are not recommended by the broker-dealer. Certainly, situations involving the most sophisticated investors do not warrant increased scrutiny, such as an additional suitability analysis for transactions that are not solicited or recommended by the broker-dealer.

Timing of Implementation

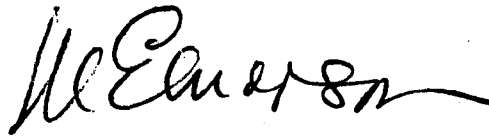
In addition, we ask you to recognize that the implementation of the bank exemptions will have an impact on affiliated broker-dealers. Those affiliates will be involved in integrating "pushed out" activity into the broker-dealer, which will of course involve expansion of the supervisory responsibilities of the broker-dealer and all related

functions, including Compliance and Operational issues. We believe unfortunately that the effort may coincide with another very positive effort to improve securities regulation by combining NYSE Regulation and NASD Regulation into one self-regulatory organization with a combined set of new rules. In establishing time frames for compliance, we ask that the Agencies be mindful of the totality of change the industry faces within a relative short time frame, including the need to address, and amend if necessary, NASD Rule 3040.

Conclusion

In conclusion, HSBC Securities (USA) Inc. appreciates the collaborative efforts of the Agencies and their staff in issuing this very much improved proposal. We believe that with the revisions suggested in greater detail by the ABA and ABASA, as well as SIFMA, Regulation R offers a positive and workable framework for the provision of financial services consistent with GLBA. We strongly urge the Agencies to address, in a timely manner, the dual employee issue in particular.

Sincerely yours,

A handwritten signature in black ink, appearing to read "W. E. Emerson", with a long horizontal flourish extending to the right.