

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20060061604-01**

RECEIVED

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REGISTRATION & DISCLOSURE

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

RE: Hudson Securities, Inc., Respondent
Broker/Dealer
CRD No. 10467

Pursuant to NASD Rule 9216 of FINRA Code of Procedure, Hudson Securities, Inc. ("the firm") 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 the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The firm 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

The firm has been a member of FINRA since May 3, 1982, and its registration remains in effect. The firm has the following relevant disciplinary history:

- On May 5, 2006, FINRA accepted an AWC in which the firm was fined \$72,500 for a matter involving violations of NASD Rules 5430, 6130, 6420, 6620, 2110 and 3010, and SEC Rule 10b-10, in connection with a Trading and Market Making Examination review ("TMMS Examination") for the trade dates May 13 and 14, 2003, and involving violations of NASD Rules 5430, 6130, 6420, 6620, 6955, 2110 and 3010, and SEC Rules 11Ac1-1, 10b-10 and 17a-3, in connection with a TMMS Examination for the trade dates July 21 and 22, 2004.
- On March 19, 2004, FINRA accepted an AWC in which the firm was fined \$30,500 for violations of NASD Rules 4632, 6130, 3110, 2110 and 3010, and SEC Rules 10b-10 and 17a-3, in connection with a TMMS Examination for the trade dates August 20 and 21, 2002.

SUMMARY

In Review No. 20070097943, the staff conducted a TMMS Examination, which included a review of the items set forth on Exhibit No. 1, for the trade dates June 27 and 28, 2007 ("the review period").

VIOLATIVE CONDUCT BY RESPONDENT

1. During the review period, the firm failed to report to the OTC Reporting Facility 53 last sale reports of transactions in OTC Equity Securities. The conduct described in this paragraph constitutes separate and distinct violations of NASD Marketplace Rule 6620.
3. During the review period, the firm failed to report to the NASD/Nasdaq Trade Reporting Facility the correct symbol indicating whether the firm executed 45 transactions in Reportable Securities in a principal or agency capacity. The conduct described in this paragraph constitutes separate and distinct violations of NASD Marketplace Rule 6130.

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

A censure and a fine of \$10,000 (\$5,000 for the transaction reporting violations and \$5,000 for the trade reporting violations).

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

The firm specifically and voluntarily waives any right to claim that the firm 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

The firm specifically and voluntarily waives the following rights granted under FINRA'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, the firm specifically and voluntarily waives any right to claim bias or prejudgment of the General Counsel, 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.

The firm 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

The firm 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, pursuant to NASD Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; and
- C. If accepted:
 - 1. this AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the firm;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the firm's disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-3; and

4. the firm 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 FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the firm's testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

D. The firm understands that it may attach a Corrective Action Statement to this AWC, which is a statement by the Respondent of demonstrable corrective steps taken to prevent future misconduct. Respondent may not deny the findings 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 firm certifies that a duly authorized officer has read and understood 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 the firm to submit it.

12/8/2008
Date

Hudson Securities, Inc.

By: Randy Hechtler

Name: Randy Hechtler

Title: Director of Compliance

~~Reviewed by:~~

~~Counsel for Respondent~~

Accepted by FINRA:

1/6/09
Date

Thomas R. Gira

Thomas R. Gira

Executive Vice President

Market Regulation

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

EXHIBIT 1

2007 MRE Exam Samples Hudson Securities, Inc. ("HDSN") Exam No.: 2007 0097943

<u>Sample Size:</u>	<u>Sample Description:</u>	<u>Sample Source/Period:</u>
30	Customer and proprietary sales, reviewed for compliance with SEC Rule 200(g) long/short/exempt sale recording requirements.	From trade dates June 27 and 28, 2007.
0	Customer and proprietary short sales, reviewed for compliance with SEC Rule 203(b) security location requirements.	From trade dates June 27 and 28, 2007.
437	Customer and proprietary sales reported to a TRF or OTCRF, for compliance with NASD Rules 6130, 4632 and 6620 sale indicator reporting requirements.	From trade dates June 27 and 28, 2007.
0	Customer and proprietary sales reported to the ADF/TRACS, for compliance with NASD Rule 4632A sale indicator reporting requirements.	From trade dates June 27 and 28, 2007.
0	Short sales in Nasdaq Global Market securities executed otherwise than on an exchange, for compliance with NASD Rule 5100 bid test requirements.	From trade dates June 27 and 28, 2007.
0	Short sales in exchange-listed securities executed otherwise than on an exchange, for compliance with SEC Rule 10a-1 tick test requirements.	From trade dates June 27 and 28, 2007.
25	Customer and proprietary sales entered into the Nasdaq Exchange execution systems, for compliance with Nasdaq Rule 4755 long/short/exempt sale indicator entry requirements.	From trade dates June 27 and 28, 2007.
41	Cancellations of trades reported to a TRF or OTCRF, for compliance with NASD Rules 4632(g), 6420(f), 6620(f) and 6130(f) trade report cancellation requirements.	From trade dates June 27 and 28, 2007.
100	Limit and market orders executed as principal, for compliance with the order protection and best execution requirements of NASD Rules 2110, IM-2110-2, 2111, 6541 and 2320, and Nasdaq Rules 2110, IM-2110-2, 2111 and 2320	From trade dates June 27 and 28, 2007.

EXHIBIT 1

2007 MRE Exam Samples Hudson Securities, Inc. ("HDSN") Exam No.: 2007 0097943

<u>Sample Size:</u>	<u>Sample Description:</u>	<u>Sample Source/Period:</u>
0	Limit orders for NMS stocks in which the member acts as an exchange or OTC market maker, for compliance with the display requirements of SEC Rule 604, 604 and Nasdaq Rule 3390.	From trade dates June 27 and 28, 2007.
0	Market orders with "not held" terms or from institutional customers, for compliance with NASD Rule 2320 and Nasdaq Rule 2320 best execution requirements.	From trade dates June 27 and 28, 2007.
0	Market orders executed as principal, for compliance with NASD Rule 2320 and Nasdaq Rule 2320 best execution requirements.	From trade dates June 27 and 28, 2007.
4	Order memoranda for net trades effected by non-institutional and institutional customers, for compliance with NASD Rule 2441 documentation requirements.	From trade dates June 27 and 28, 2007.
4	Net trading agreements with institutional customers, for compliance with NASD Rule 2441 documentation requirements.	From trade dates June 27 and 28, 2007.
242	Principal and riskless principal trade executions effected otherwise than on an exchange for limit or market orders, for compliance with NASD Rules 4632, 6420, 6620 and 6130 requirements for TRF and OTCRF reporting.	From trade dates June 27 and 28, 2007.
0	Principal and riskless principal trade executions effected otherwise than on an exchange for limit or market orders, for compliance with NASD Rule 4632A requirements for ADF/TRACS reporting.	From trade dates June 27 and 28, 2007.
27	FINRA Market Surveillance breaks for principal and riskless principal trades, for compliance with NASD Rules 4632, 6420, 6620, 6130 and 4632A requirements for TRF, OTCRF and ADF/TRACS reporting.	From trade dates June 27 and 28, 2007.

EXHIBIT 1

2007 MRE Exam Samples Hudson Securities, Inc. ("HDSN") Exam No.: 2007 0097943

<u>Sample Size:</u>	<u>Sample Description:</u>	<u>Sample Source/Period:</u>
127	Trade executions effected otherwise than on an exchange for 49 orders in Nasdaq-listed or exchange listed securities, received from customers with accounts subject to a soft dollar agreement, for compliance with the SEC '34 Act section 28(e) safe harbor which limits the accrual of soft dollar credits for riskless principal transactions to those reporting in compliance with NASD Rules 4632 and 6420.	From various trade dates in June 2007.
0	Open limit orders to buy and/or open stop orders to sell securities that traded ex-dividend, for compliance with NASD Rule 3220 and Nasdaq Rule 4761.	For ex-dividend dates June 27 and 28, 2007.
0	Trades reported to a TRF or OTCRF with a .PRP modifier, for compliance with NASD Rules 4632, 6420, 6620 and 2320.	From trade dates June 27 and 28, 2007.
25	Orders for NMS stocks in which the firm acts as a market center, for compliance with SEC Rule 605 order classification requirements.	From trade dates June 27 and 28, 2007.
4 (28 orders)	Datasets published for on the monthly order execution report, for compliance with SEC Rule 605 requirement to publish accurate data. (A "dataset" is all required statistical data for a single order category, with each category representing a single unique combination of a security, order type and order size, as described in Rule 605.)	Firm's monthly order execution report from May 2007.
N/A	Quarterly order routing report, for compliance with SEC Rule 606 requirements.	Report published for the period of April through June 2007.
25	Customer orders in OTC equity securities, for compliance with NASD Rules 2320(g) and 3110(b) requirements to ascertain and document the best interdealer market for transactions in such securities.	From trade dates June 27 and 28, 2007.

EXHIBIT 1

2007 MRE Exam Samples Hudson Securities, Inc. ("HDSN") Exam No.: 2007 0097943

<u>Sample Size:</u>	<u>Sample Description:</u>	<u>Sample Source/Period:</u>
50	Orders in securities required to be submitted to OATS, for compliance with NASD Rules 6954 and 6955, and Nasdaq Rules 6954 and 6955 requirement to submit OATS information.	From trade dates June 27 and 28, 2007.
327	Order/Trade records prepared and maintained in connection with the above samples, for general compliance with requirements of NASD Rule 3110 and SEC Rules 17a-3 and 17a-4.	From various trade dates in May and June 2007.
627	Trades reported to a TRF, OTCRF or ADF/TRACS in connection with the above samples, for general compliance with requirements of NASD Trade Reporting and ADF rules.	From various trade dates in May and June 2007.
63	Customer confirmations prepared and maintained in connection with the above samples, for compliance with SEC Rule 10b-10 disclosure requirements.	From various trade dates June 2007.
20	CRD registration records for persons conducting and/or supervising the member's trading and market making activities, for compliance with NASD Rule Series 1020, 1030 and 1040, and Nasdaq Rule Series 1020, 1030 and 1040.	List of trading personnel for June 2007.
All, as provided by the member	The member's supervisory system, written supervisory procedures ("WSPs") and documents evidencing the implementation of the WSPs, for compliance with NASD Rule 3010 requirements to establish an implement a system that is reasonably designed to prevent and detect violations of applicable securities rules.	WSPs provided by the member as those in effect during June 2007, and documentation of supervisory reviews conducted for June 2007.
N/A	The member's "Regular & Rigorous" review procedures (for assessing the execution quality of orders sent to other trading centers and/or internalized, for compliance with NASD Rules 2320 and 3010.	Procedures provided by the member as those in effect during June 2007.

EXHIBIT 1

2007 MRE Exam Samples Hudson Securities, Inc. ("HDSN") Exam No.: 2007 0097943

Customer Sales Review (Sample Breakdown)

- 5 Sample Size, 9 total trades.
 - 3 in SC securities.
 - 2 in SC securities.

Proprietary Sales Review (Sample Breakdown)

- 45 Sample Size, 437 total sales up to and including the sample trade, 25 orders entered into the Nasdaq Singlebook.
 - 32 in OTC/OTCBB securities.
 - 8 in NNM securities.
 - 4 in SC securities.
 - 1 in a CQS security.

(All trades were in market making securities.)

RO Modifier Review (Sample Breakdown)

- 15 Sample Size, 16 total trades.
 - 7 orders in NNM securities.
 - 6 orders in OTC/OTCBB securities.
 - 2 orders in SC securities.

Canceled Trades Review (Sample Breakdown)

- 34 Sample Size, 41 total trades.
 - 25 orders in OTC/OTCBB securities.
 - 7 orders in NNM securities.
 - 1 order in a SC security.
 - 1 order in a CQS security.

Order Protection Review (Sample Breakdown)

- 100 Sample Size, 242 total trades.
 - 71 orders in OTC/OTCBB securities.
 - 20 orders in NNM securities.
 - 9 orders in SC securities.

Riskless Principal Trade Reporting Review (Sample Breakdown)

- 7 Sample Size, 27 total trades; all were in OTC/OTCBB securities.

EXHIBIT 1

2007 MRE Exam Samples Hudson Securities, Inc. ("HDSN") Exam No.: 2007 0097943

Soft Dollar Compensation Review (Sample Breakdown)

- 49 Sample Size, 127 total trades; all were in OTC/OTCBB securities.

SEC 605 Order Classification Review

- 25 Sample Size, 26 total trades.
 - 15 orders in NNM securities.
 - 8 orders in SC securities.
 - 2 orders in CQS securities.

SEC 605 Reported Data Review

- 4 Sample Size.
 - IOTN – NNM security, 7 orders.
 - MSON – NNM security, 7 orders.
 - LBLX – NNM security, 7 orders.
 - HOLX – NNM security, 7 orders.

OATS Review (Sample Breakdown)

- 50 Sample Size, 27 trades; 27 were taken from the Order Protection Review and 23 were selected at random.
 - 39 orders in NNM securities.
 - 11 orders in SC securities.

OTC/OTCBB Review (Sample Breakdown)

- 21 Sample Size, 35 total trades; all in OTC/OTCBB securities.