

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20070104517-02**

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

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

Pursuant to FINRA 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, in addition to other things, violations of NASD Rules 6130, 2110 and 3010, committed on May 13 and 14, 2003, and violations of NASD Rules 6130, 2110 and 3010, and SEC Rules 10b-10 and 17a-3, committed on July 21 and 22, 2004.

On January 8, 2009, FINRA accepted an AWC (20060061604 (incl. 20070097943)) in which the firm was fined \$10,000 for violations of NASD Rules 6130 and 6620, committed during the review period June 27 and 28, 2007.

2008050101 2011

000029129 2011

SUMMARY

In Review No. 20070104517, the staff of the FINRA Department of Market Regulation ("the staff") conducted a regulatory sweep regarding Best Execution – Market Order Timeliness for the review period January 1, 2007 through March 31, 2007.

In Review No. 20080136223, the staff conducted a regulatory sweep regarding Best Execution – Market Order Timeliness for the review period October 1, 2007 through December 31, 2007.

In Review No. 20080136555, the staff conducted a regulatory sweep regarding Market Order Protection for the review period October 1, 2007 through December 31, 2007.

In Review No. 20090171461, the staff conducted a regulatory sweep regarding Disclosure of Order Execution Information for the review period of November 1, 2008 through January 31, 2009.

In Review No. 20080123458, the staff conducted a regulatory sweep regarding OATS Reporting for the review period of July 1, 2007 through September 30, 2007.

In Review No. 20080142699, the staff conducted a TMMS Examination, which included a review of the items set forth on Exhibit No. 1, for the trade dates July 15 and July 16, 2008.

In Review No. 20090170075, the staff conducted a TMMS Examination, which included a review of the items set forth on Exhibit No. 2, for the trade dates July 27 and July 28, 2009.

VIOLATIVE CONDUCT BY RESPONDENT

In connection with Review No. 20070104517:

1. In 24 transactions for or with a customer, the firm failed to use reasonable diligence to ascertain the best inter-dealer market and buy or sell in such market so that the resultant price to its customer was as favorable as possible under prevailing market conditions, as reflected on Exhibit No. 3. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rules 2110 and 2320.
2. In 40 instances, the firm failed to execute orders fully and promptly. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rules 2110 and 2111(a).

In connection with Review No. 20080136223:

- 3. In 18 transactions for or with a customer, the firm failed to use reasonable diligence to ascertain the best inter-dealer market and buy or sell in such market so that the resultant price to its customer was as favorable as possible under prevailing market conditions, as reflected on Exhibit No. 4. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rules 2110 and 2320.**
- 4. In 48 instances, the firm failed to execute orders fully and promptly. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rules 2110 and 2111(a).**

In connection with Review No. 20080136555:

- 5. In 95 transactions for or with a customer, the firm failed to use reasonable diligence to ascertain the best inter-dealer market and buy or sell in such market so that the resultant price to its customer was as favorable as possible under prevailing market conditions, as reflected on Exhibit No. 5. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rules 2110 and 2320.**
- 6. In 100 instances, the firm failed to execute orders fully and promptly. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rules 2110 and 2111(b).**

In connection with Review No. 20090171461:

- 7. For the months of November 2008 through January 2009, the firm made available a report on the covered orders in national market system securities that it received for execution from any person. This report included incorrect information as to the Average Realized Spread, Average Effective Spread, and Price Improved Amount for four covered orders. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 605 of Regulation NMS.**

In connection with Review No. 20080123458:

- 8. The firm transmitted to OATS 1,544 Reportable Order Events ("ROEs") that were rejected by OATS for context or syntax errors and were repairable. The firm failed to repair 852 of these rejected ROEs during the review period, representing 55 percent of all rejected repairable ROEs. As a result of the firm's failure to repair these ROEs, the firm failed to transmit 852 ROEs to OATS during the review period. The firm also failed to repair 667 of the 1,544 rejected ROEs within the required five**

business days. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).

In connection with Review No. 2008012699:

9. The firm effected nine short sale transactions and failed to report each of these transactions to the FINRA/Nasdaq Trade Reporting Facility ("the TRF") with a short sale modifier, and effected 74 long sale transactions and incorrectly reported each of these transactions to the TRF as short. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6130(d).
10. The firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to certain applicable securities laws and regulations, and/or the Rules of FINRA. At a minimum, adequate written supervisory procedures addressing quality of markets topics should describe the following:
 - (a) specific identification of the individual(s) responsible for supervision;
 - (b) the supervisory steps and reviews to be taken by the appropriate supervisor;
 - (c) the frequency of such reviews; and
 - (d) how such reviews shall be documented.

The firm's written supervisory procedures failed to provide for one or more of the four above-cited minimum requirements for adequate written supervisory procedures, in the following subject areas: order handling [(a), (b), (c), and (d)]; best execution [(c), and (d)]; and anti-intimidation and coordination [(d)]. The conduct described in this paragraph constitutes violations of NASD Rules 2110 and 3010.

In connection with Review No. 20090170075:

11. The firm effected 264 long sale transactions and incorrectly reported each of these transactions to the TRF as short. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 6182.
12. The firm, on 15 occasions when it acted as principal for its own account, failed to provide written notification disclosing to its customer that it was a market maker in each such security. The firm, on two occasions when acting in riskless capacity, inaccurately disclosed to its customer that its remuneration as commission, instead of commission equivalent. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 10b-10.

13. For the month of June 2009, the firm made available a report on the covered orders in national market system securities that it received for execution from any person. This report included incorrect information as to the Average Realized Spread, Average Effective Spread, Price Improved Shares, Price Improved Average Amount, Price Improved Time, Outside the Quote Shares, Outside the Quote Average Amount, and At the Quote Shares. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 605 of Regulation NMS.
14. For the third calendar quarter of 2009, the firm made publicly available a report on its routing of non-directed orders in covered securities during that quarter. This report included incomplete information as to its routing venues. The conduct described in this paragraph constitutes a violation of SEC Rule 606 of Regulation NMS.
15. The firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to certain applicable securities laws and regulations, and/or the Rules of FINRA. At a minimum, adequate written supervisory procedures addressing quality of markets topics should describe the following:
 - (a) specific identification of the individual(s) responsible for supervision;
 - (b) the supervisory steps and reviews to be taken by the appropriate supervisor;
 - (c) the frequency of such reviews; and
 - (d) how such reviews shall be documented.

The firm's written supervisory procedures failed to provide for one or more of the four above-cited minimum requirements for adequate written supervisory procedures, in the following subject areas: short sale transactions [(a), (b), (c), and (d)]; and OATS Reporting [(b), (c), and (d)]. The conduct described in this paragraph constitutes violations of FINRA Rule 2010 and NASD Rule 3010.

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

A censure; a fine of \$87,500 (\$30,000 for the combined best execution violations; \$10,000 for the SEC Rule 605 violations; \$10,000 for the SEC Rule 606 violations; \$10,000 for the combined short sale trade input violations; \$10,000 for the OATS reporting violations; \$5,000 for the customer confirmation violations; and \$12,500 for the combined supervision violations); an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraphs ten and fifteen above; and restitution to the investors listed on Exhibits Nos. 3, 4, and 5 in the total amount of \$3,395.05, plus interest at the rate set forth in Section 6621(a) of the Internal Revenue Code, 26 U.S.C. 6621(a)(2), from the date of the violative conduct until the date this AWC is accepted by the National Adjudicatory Council ("NAC").

Within 30 business days of acceptance of this AWC by the NAC, a registered principal of the Respondent shall submit to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850, a signed, dated letter, or an e-mail from a work-related account of the registered principal to MarketRegulationComp@finra.org, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its written supervisory procedures to address the deficiencies described in paragraphs ten, eleven, and sixteen above; and (3) the date the revised procedures were implemented.

In addition, a registered principal of the firm shall submit satisfactory proof of payment of the restitution, or of reasonable and documented efforts undertaken to effect restitution, to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850 no later than 120 days after acceptance of this AWC. If for any reason, Respondent cannot locate any customer after reasonable and documented efforts within such period, or such additional period agreed to by the staff, Respondent shall forward any undistributed restitution and interest to the appropriate escheat, unclaimed-property or abandoned-property fund for the state in which the customer last resided.

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 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 FINRA Rule 9143 or the separation of functions prohibitions of FINRA 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 FINRA 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 FINRA Rule 8313; 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.

2-14-2011

Date

Hudson Securities, Inc.

By:

Name:

Title:

CEO

Reviewed by:


Counsel for Respondent

Eden L. Rohrer, Esq.

Haynes and Boone, LLP

1221 Avenue of the Americas 26th floor

New York, New York 10020

Phone: 212-659-4984

Accepted by FINRA:

4/5/11
Date

Thomas R. Gira
Thomas R. Gira
Executive Vice President
Market Regulation
Signed on behalf of the Director of ODA,
by delegated authority

Item No.	Original Item No.	MPID	Order Receipt Date	Order Receipt Time	Buy/Sell	Quantity	Issue	Order ID	Order Execution Time	Routing Firm MPID	Principal Execution Time	Total Order Duration	Restitution Calculation	Restitution Amount
1	1	HDSN	1/18/2007	8:12:20	8	112	TISI		8:31:15	UBSS	N/A	0:01:15	N/A	N/A
2	2	HDSN	1/17/2007	9:53:23	8	1000	ISWI		9:54:08	RAJA	Unknown	0:00:48	(1.88-1.81)*500	\$42.00
3	4	HDSN	1/18/2007	11:01:46	8	5000	PTSX		11:04:22	ANSR	11:04:22	0:02:38	(3.89-3.88)*200 + (3.91-3.88)*200 + (3.93-3.88)*388 + (3.95-3.00)*200 + (3.96-3.00)*700 + (3.97-3.00)*700 + (3.99-3.88)*1700	\$943.00
4	5	HDSN	1/22/2007	13:18:18	8	4000	DRVX		13:17:30	ORCC	13:17:30	0:01:00	(20.32-20.30)*1900	\$38.00
5	6	HDSN	3/24/2007	16:54:32	5	2300	BLDR		16:55:37	NEUS	16:56:37	0:01:05	(17.77-17.76)*1000 + (17.78-17.76)*100	\$12.00
6	7	HDSN	1/24/2007	11:55:14	8	5000	MRVL		11:57:07	DRKW	11:57:07	0:01:53	N/A	N/A
7	8	HDSN	1/28/2007	11:13:26	5	5000	NTRI		11:15:35	OPCO	11:16:35	0:02:10	(57.82-57.72)*100 + (57.88-57.75)*100 + (57.80-57.72)*200 + (57.81-52.72)*300 + (57.85-57.72)*2500	\$360.00
8	10	HDSN	1/30/2007	8:50:23	6	2000	ISWI		9:51:55	MAXM	9:51:55	0:01:32	(1.13-1.08)*145	\$4.35
9	11	HDSN	2/1/2007	15:55:08	6	785	TISI		15:58:15	HRBF	15:58:15	0:01:07	(34.18-33.87)*198	\$61.58
10	12	HDSN	2/2/2007	11:31:31	8	5000	DSCM		11:33:00	ANSR	Unknown	0:01:29	N/A	N/A
11	14	HDSN	2/8/2007	8:52:20	8	7	CSCO		9:31:04	USAA	N/A	0:00:58	(27.77-27.75)*7	\$0.14
12	15	HDSN	2/8/2007	8:28:52	8	23	CSCO		9:31:05	USAA	N/A	0:00:59	(27.77-27.75)*23	\$0.46
13	16	HDSN	2/8/2007	9:57:14	8	3440	BURL		9:58:19	NEUS	9:58:19	0:01:05	(20.24-20.11)*340	\$44.20
14	17	HDSN	2/8/2007	10:11:28	8	1000	SMTS		10:12:42	NEUS	10:12:42	0:01:18	(18.93-18.91)*100	\$2.00
15	18	HDSN	2/13/2007	11:27:16	8	3781	EPIC		11:28:49	MOKE	Unknown	0:01:10	N/A	N/A
16	19	HDSN	2/16/2007	9:30:10	8	1000	HRBN		9:31:27	NFSC	9:31:27	0:01:17	(12.91-12.80)*400	\$44.00
17	21	HDSN	2/16/2007	10:36:33	8	2000	BSQR		10:37:38	HRBF	10:37:38	0:01:03	N/A	N/A
18	22	HDSN	2/16/2007	12:16:22	8	6000	BLTI		12:17:42	JSLP	12:17:42	0:02:20	(8.57-8.56)*600 + (8.57-8.55)*400 + (8.57-8.54)*300 + (8.57-8.55)*200 + (8.57-8.51)*1000	\$189.00
19	24	HDSN	2/23/2007	12:10:21	8	1000	D8TI		12:11:04	BBHC	12:11:04	0:00:43	(3.78-3.74)*700	\$28.00