

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2011026915302**

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

RE: Foothill Securities, Inc.
CRD No. 1027

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent, Foothill Securities, Inc. ("Foothill" or 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 Foothill alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Foothill 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

Foothill has been a FINRA registered broker-dealer since 1962 and is headquartered in Santa Clara, California. Foothill currently has approximately 255 registered individuals operating from approximately 135 branch locations. The Firm conducts a general securities business using the independent contractor model. Foothill is approved to conduct business in the following products: equities, mutual funds, corporate and municipal debt, U.S. government securities, oil and gas interests, options, private placements, direct participation programs, and variable contracts. The Firm is also approved for corporate debt underwriting.

RELEVANT DISCIPLINARY HISTORY

In December 2014, Foothill entered into an AWC (No. 2012030670401) in which it consented to findings that between May 17, 2010 and September 16, 2012, it violated NASD Rule 3010 and FINRA 2010 by failing to: (i) have an adequate supervisory system and written supervisory procedures ("WSPs") to monitor its

securities business; (ii) follow the supervisory system and WSPs it had in place; and (iii) establish and enforce policies and procedures reasonably designed to supervise the Firm's securities business. The Firm also consented to findings that it violated MSRB Rule G-27; FINRA Rules 3270, 3012, 4530, and 4512; NASD Rules 3070, 3110(c), and 3040; and SEC Rule 17a-3(a)(17). The Firm was censured and fined \$210,000. The Firm also consented to a \$25,000 joint and several fine with the Firm's Chief Compliance Officer and an undertaking to retain an Independent Consultant and to revise its policies, systems and procedures.

OVERVIEW

Between March 2008 and May 2014 (the "Relevant Period"), Foothill violated NASD Rule 3010 and FINRA Rule 2010 by failing to establish reasonable supervisory systems and procedures concerning 22 sales of non-liquid Real Estate Investment Trusts in amounts that exceeded the Firm's asset concentration guidelines.

FACTS AND VIOLATIVE CONDUCT

NASD Rule 3010(a) requires FINRA members to, among other things, "establish and maintain a system to supervise the activities of each registered representative, registered principal, and other associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable ... [FINRA] rules."

NASD Rule 3010(b) requires member firms to establish, maintain, and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of registered representatives, registered principals, and other associated persons.

FINRA Notice to Members 03-71 (November 2003) states that when offering non-conventional investments to customers, such as non-exchange traded REITs, FINRA member broker-dealers must establish sufficient internal supervisory controls that are reasonably designed to ensure that the sale of such products are suitable and comply with all applicable FINRA and Securities and Exchange Commission rules. A REIT is a trust that owns income-producing real estate. Shares of non-traded REITs that do not trade on national exchanges are generally illiquid for extended periods. In addition, the secondary market for non-traded REITs may be limited.

During the Relevant Period, the Firm maintained written guidelines for limiting customers' investments in non-exchange traded REITs and other non-liquid investments ("Concentration Guidelines"). The Concentration Guidelines stated that no single order in one non-liquid product should equal more than 10% of a customer's investable net worth as of the time the order is placed and that no

order should cause a customer to have more than 20% of his or her investable net worth in non-liquid Investments.

During March 2008, at the request of one of its registered representatives, the Firm provided a written customer acknowledgement (the "acknowledgment") that requested a customer signature to acknowledge that the customer was purchasing a non-traded REIT in an amount that exceeded the Concentration Guidelines. Subsequently, during the Relevant Period, this registered representative and one other registered representative recommended an investment in non-exchange traded REITS for 21 additional customers outside the Concentration Guidelines and had those customers sign the acknowledgment to complete the transactions.

The Firm approved those sales, even though the Firm did not take reasonable steps to ensure that the registered representatives had informed the Firm that they were recommending a transaction beyond the Concentration Guidelines and were providing the acknowledgment to their customers. In addition, the Firm did not provide these registered representatives or their supervisors with adequate guidance about how to assess whether an additional REIT transaction would result in the customer exceeding the Concentration Guidelines in the aggregate, and thus whether additional investments in non-exchange traded REITs were suitable.

By virtue of the forgoing conduct, Foothill violated NASD Rules 3010(a) and (b) and FINRA Rule 2010.

B. Respondent consents to the imposition of the following sanctions:

- A censure; and
- A fine in the amount of \$30,000.

Foothill agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Foothill has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

Foothill specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

II.

WAIVER OF PROCEDURAL RIGHTS

Foothill specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against it;
- B. To be notified of the 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, Foothill specifically and voluntarily waives any right to claim bias or prejudice of the Chief Legal Officer, 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.

Foothill 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

Foothill 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 ("ODA"), 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 Foothill; and

C. If accepted:

1. this AWC will become part of Foothill's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against it;
2. this AWC will be made available through FINRA's public disclosure program in accordance with FINRA Rule 8313;
3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
4. Foothill 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. Foothill 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 Foothill's: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

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

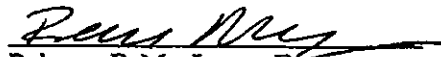
The undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that Foothill has agreed to its provisions voluntarily; and that no offer, 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.

12/8/16
Date

Steph H. Chin
Foothill Securities, Inc., Respondent

By: its President

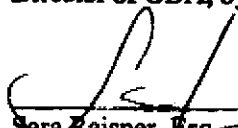
Reviewed by:


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Accepted by FINRA:

12/19/16
Date

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


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