

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20120306704-01**

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

RE: Foothill Securities, Inc., Respondent
FINRA Member Firm
CRD No. 1027

Stephen Guy Shipp, Jr., Respondent
General Securities Principal
CRD No. 1937641

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Foothill Securities, Inc. (Foothill or the Firm) and Respondent Stephen Guy Shipp, Jr. (Shipp) (hereinafter collectively referred to as Respondents) submit 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 Respondents alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A.** Respondents hereby accept and consent, 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 Securities, Inc. is a dually registered broker-dealer / investment advisor firm and has been a member of FINRA since December 13, 1962. The Firm currently has approximately 255 registered individuals operating from approximately 138 branch office locations. The Firm conducts a general securities business using the independent contractor model. The Firm is approved to conduct a business in the following products: equities, mutual funds, corporate and municipal debt, US government securities, oil and gas interests, options, private placements, direct participation programs, and variable contracts. The Firm is also approved for corporate debt underwriting.

Stephen Guy Shipp, Jr. first entered the securities industry when he associated with a FINRA member firm on March 9, 1989. On June 2, 2008, Shipp associated with Respondent Foothill and registered with the Firm as a General Securities Representative, General Securities Principal, Municipal Securities Principal, and Registered Investment Advisor, and subsequently as a Limited Representative – Investment Banking, and Operations Professional. Shipp was promoted into the position of Chief Compliance Officer (CCO) at Foothill in September 2009 and held the position the entire relevant time period. Shipp continues to be employed and registered with Foothill.

RELEVANT DISCIPLINARY HISTORY

Neither Foothill nor Shipp have any relevant disciplinary history.

OVERVIEW

Between May 17, 2010 and September 16, 2012, Foothill did not have an adequate supervisory system and written supervisory procedures (WSPs) to monitor its securities business, failed to follow the supervisory system and WSPs that it had in place, and failed to establish and enforce policies and procedures reasonably designed to supervise the Firm's securities business. Shipp, as CCO of Foothill, was responsible for Foothill's supervisory system, its WSPs, and the enforcement of its supervisory system and procedures throughout the relevant period and caused the violations described herein.

FACTS AND VIOLATIVE CONDUCT

Inadequate Supervisory System and Written Supervisory Procedures

1. Between May 17, 2010 and September 16, 2012 (the Relevant Period), Foothill, acting through Shipp:
 - a. Heavily relied upon a proprietary data system (STRIPES) for the supervision of its registered representatives and their securities activities and transactions that was inadequate in that the trading information captured by the proprietary system was not consistently accurate or complete. In addition, the Firm was aware of these shortcomings, but nonetheless primarily relied on STRIPES to perform its trading activity reviews, among other reviews, of its registered representatives during the relevant period;
 - b. Allowed nine of its "dual Office of Supervisory Jurisdiction (OSJ)" or "OSJ-to-OSJ" branch offices to have two producing managers supervise each other's activities, even though such a supervisory structure is prohibited under NASD Rule 3012. In addition, the Firm's WSPs required that the producing manager ensure that their own transactions are reviewed, instead of requiring the supervisor of those transactions to

ensure that they are reviewing the transactions of the other producing manager;

- c. Had an inadequate supervisory system and WSPs relating to the heightened supervision of its producing managers;
 - d. The Firm's WSPs required all producing managers' correspondence to be forwarded to the home office for review and approval by the CCO, which was Shipp during the Relevant Period. Foothill's WSPs, however, failed to specify the details of, among other things, what the CCO's correspondence reviews would entail and how the reviews would be evidenced. At least one producing manager never sent any of his correspondence to the CCO for review or approval;
 - e. Failed to complete the "look backs" for six of its seven registered representatives who had previously-approved outside business activities (OBAs) before the deadline imposed in Notice to Members 10-49;
 - f. Failed to adequately and accurately disclose the required details of the OBAs of its registered representatives in 34 of 87 sampled Form U4 disclosures;
 - g. Failed to timely update its registered representatives Form U4s in at least 13 instances during the Relevant Period;
 - h. Failed to timely file five customer complaints, and four other customer related disclosures with FINRA;
 - i. Failed to evidence the daily review and approval of the daily reports of the approved private securities transactions (PSTs) of one of its registered representatives. The Firm's WSPs in this area were also inadequate; and
 - j. Failed to supervise a registered representative's public appearances on daily radio shows and/or television shows.
2. Although the Firm appeared to adequately conduct its branch inspections, it failed to create any system to follow-up on findings noted in the branch inspections. As a result, the Firm, acting through Shipp, failed:
- a. To follow up on inspection findings that a registered representative borrowed money, in the form of long-term promissory notes, from Foothill customers over a period of several years for his previously approved OBA, which constituted private securities transactions (PSTs), thereby resulting in the failure to supervise these PSTs; and
 - b. To address and correct certain repeat deficiency findings in annual branch inspection reports.

3. In addition, the Firm, acting through Shipp, did not perform adequate individual branch risk assessments during its annual planning process. Depth and duration of inspections was not determined by the activities, transactions, or issues pertaining to a specific branch.

The foregoing acts, practices and conduct constitute separate and distinct violations of NASD Rule 3010, FINRA Rule 2010, and Municipal Securities Rulemaking Board (MSRB) Rule G-27, by Respondents Foothill and Shipp.

Failure to Follow Supervisory System and Written Supervisory Procedures

1. Foothill, acting through Shipp, failed to adequately review securities transactions of its registered representatives, and failed to adequately evidence the reviews that the Firm did conduct.
2. Foothill, acting through Shipp, failed to follow its supervisory system and WSPs in regards to heightened supervision of producing managers by allowing at least one of its producing managers to sign off as the registered representative on his own transactions and to provide the principal approval for those same transactions in STRIPES.
3. The Firm's WSPs required either an OSJ manager or the Firm's compliance department principals to approve customer address changes prior to implementation; however, one OSJ branch did not consistently follow this procedure.
4. One of the Firm's OSJs failed to maintain any account records for five of sixteen accounts sampled, and the remaining eleven accounts all lacked certain customer information required by the Firm and the applicable rules. The Firm and Shipp had been previously informed by FINRA of these shortcomings, but failed to rectify this inadequacy.
5. The Firm's WSPs regarding correspondence required principal review and approval of all incoming or outgoing correspondence related to the Firm's business. In one of the Firm's OSJ branches, 18 of 81 pieces of correspondence sampled were lacking principal approval, and 39 additional pieces failed to have principal approval in their final format.

The foregoing acts, practices and conduct constitute separate and distinct violations of NASD Rule 3010, FINRA Rule 2010, and MSRB Rule G-27, by Respondents Foothill and Shipp.

Failure to Establish and Enforce Policies and Procedures Reasonably Designed to Supervise the Firm's Securities Business

1. Foothill, acting through Shipp, failed to adequately and accurately disclose the outside business activities of its registered representatives in 34 of 87 sampled

Form U4 disclosures. Further, Foothill, acting through Shipp, failed to complete the "look backs" for six of its seven registered representatives who had previously approved OBAs before the deadline imposed in Notice to Members 10-49.

The foregoing acts, practices and conduct constitute separate and distinction violations of FINRA Rules 3270 and 2010 by Respondents Foothill and Shipp.

2. The Firm maintained nine branch offices under a supervisory structure called "Dual OSJ" or "OSJ-to-OSJ." Under this structure, two producing managers, either located in the same OSJ, or in two OSJs, are responsible for supervising each other's transactional activities. The Firm's structure, which Shipp was in charge of, was not compliant with NASD Rule 3012. Plus, the Firm's policy requiring the producing manager to ensure that his or her own transactions are reviewed is inadequate, as it places the responsibility upon the producer instead of the supervisor.

Further, the Firm's WSPs required Shipp to supervise all producing managers not in a "Dual OSJ" or "OSJ-to-OSJ" setup. The Firm's books and records, however, evidenced many instances where a producing manager who was required to be supervised by Shipp had not only signed as both representative and principal on the physical order ticket, but had entered and approved the transactions electronically through the STRIPES system.

The Firm's WSPs also required all producing managers' correspondence to be forwarded to the home office for review and approval by Shipp before being sent out. Foothill's WSPs, however, failed to specify the details of what Shipp's correspondence reviews would entail, how often the reviews would take place, how the reviews would be evidenced, and other important details. At least one producing manager never sent any of his correspondence to Shipp or the home office for review or approval prior to being sent out.

The foregoing acts, practices and conduct constitute separate and distinct violations of NASD Rule 3012, FINRA Rule 2010, and MSRB Rule G-27, by Respondents Foothill and Shipp.

3. As discussed above, one OSJ did not consistently follow the Firm's requirement that either an OSJ manager, or the Firm's compliance department principals, approve customer address changes prior to implementation.

The foregoing acts, practices and conduct constitute separate and distinct violations of NASD Rule 3012, FINRA Rule 2010, and MSRB Rule G-27, by Respondents Foothill and Shipp.

4. Foothill, acting through Shipp, failed to timely update its registered representatives' Form U4s in at least 13 instances during the Relevant Period.

The foregoing acts, practices and conduct constitute separate and distinct violations of FINRA By-Laws, Article V, Section 2, by Respondents Foothill and Shipp.

5. Foothill, acting through Shipp, failed to timely file five customer complaints and four other customer related disclosures with FINRA.

The foregoing acts, practices and conduct constitute separate and distinct violations of NASD Rule 3070¹ and FINRA Rules 4530² and 2010, by Respondents Foothill and Shipp.

6. Foothill, acting through Shipp, allowed one of the Firm's branch offices to fail to maintain any customer account records for five of sixteen accounts sampled. Further, the remaining eleven customer accounts all lacked certain customer information required by the Firm and the applicable FINRA and SEC rules.

The foregoing acts, practices and conduct constitute separate and distinct violations of NASD Rule 3110(c),³ and FINRA Rules 4512(a)⁴ and 2010, by Respondents Foothill and Shipp, and Shipp caused Foothill to violate United States Securities and Exchange Commission (SEC) Rule 17a-3(a)(17),⁵ in violation of FINRA Rule 2010.

7. The Firm, acting through Shipp, approved the participation of a registered representative as a sub-advisor to an exchange traded fund (ETF) as an OBA, instead of as PSTs. As a result, the Firm did not supervise the securities transactions and failed to record the transactions executed by the registered representative on its books and records.

The foregoing acts, practices and conduct constitute separate and distinct violations of NASD Rule 3040 and FINRA Rule 2010 by Respondents Foothill and Shipp.

B. Respondents also consent to the imposition of the following sanctions:

1. Respondent Foothill consents to a censure and a fine of \$210,000 (\$10,000.00 of the total fine is allocated to the violations of MSRB Rule G-27);

¹ From May 17, 2010 until June 30, 2011.

² From July 1, 2011 through September 16, 2012.

³ From May 17, 2010 until December 4, 2011.

⁴ From December 5, 2011 through September 16, 2012.

⁵ 17 CFR §240.17a-3(a)(17).

2. Respondent Shipp consents to: (a) a fine of \$25,000, which is joint and several with Respondent Foothill;¹ and (b) a suspension from associating with any FINRA registered firm in a principal capacity for three (3) months; and
3. Respondent Foothill also consents to an undertaking to retain an Independent Consultant and revise its policies, systems and procedures (written and otherwise), as described below:
 - a. Respondent Foothill shall:
 - i. Retain, within 10 business days of the date of the Notice of Acceptance of this AWC, an Independent Consultant, not unacceptable to FINRA staff, to conduct a comprehensive review of the adequacy of the Firm's policies, systems and procedures (written and otherwise);
 - ii. Exclusively bear all costs, including compensation and expenses, associated with the retention of the Independent Consultant;
 - iii. Cooperate with the Independent Consultant in all respects, including by providing staff support. Foothill shall place no restrictions on the Independent Consultant's communications with FINRA staff and, upon request, shall make available to FINRA staff any and all communications between the Independent Consultant and the Firm and documents reviewed by the Independent Consultant in connection with his or her engagement. Once retained, Foothill shall not terminate the relationship with the Independent Consultant without FINRA staff's written approval; Foothill shall not be in and shall not have an attorney-client relationship with the Independent Consultant and shall not seek to invoke the attorney-client privilege or other doctrine or privilege to prevent the Independent Consultant from transmitting any information, reports or documents to FINRA;
 - iv. After being retained by Foothill, the Independent Consultant shall submit periodic Status Reports to the Firm and FINRA staff. The Status Reports shall be submitted at least once a month, but can be provided more frequently if the Independent Consultant determines that an earlier Status Report is warranted. Based upon the information provided in each Status Report, FINRA staff is permitted to request a Follow-up Meeting to discuss the Status Report with the Independent Consultant and the Firm. At the discretion of the FINRA staff, such Follow-up Meeting may either be conducted telephonically or in person at FINRA's San Francisco District Office. Each Status Report shall address, at a minimum, (i) a

¹ This \$25,000 joint and several fine is in addition to, not included in, the \$210,000 fine assessed solely against the Firm.

description of the review performed within the last 30 days (or less, if such Status Report is being submitted within a shorter interval), and (ii) the adequacy of the Firm's policies, systems, and procedures reviewed in subsection iv.(i), above;

- v. At the conclusion of the review, which shall be no more than 130 days after the date of the Notice of Acceptance of this AWC, require the Independent Consultant to submit to the Firm and FINRA staff a Written Report. The Written Report shall address, at a minimum, (i) the adequacy of the Firm's entire policies, systems, and procedures; (ii) a description of the review performed and the conclusions reached, and (iii) the Independent Consultant's recommendations for modifications and additions to the Firm's policies, systems, procedures and training; and
 - vi. Require the Independent Consultant to enter into a written agreement that provides that for the period of engagement and for a period of two years from completion of the engagement during which the Independent Consultant shall not enter into any other employment, consultant, attorney-client, auditing or other professional relationship with Foothill, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such. Any firm with which the Independent Consultant is affiliated in performing his or her duties pursuant to this AWC shall not, without prior written consent of FINRA staff, enter into any employment, consultant, attorney-client, auditing or other professional relationship with Foothill or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.
- b. Within 30 days after delivery of the Written Report, Foothill shall adopt and implement the recommendations of the Independent Consultant or, if it determines that a recommendation is unduly burdensome or impractical, propose an alternative procedure to the Independent Consultant designed to achieve the same objective. The Firm shall submit such proposed alternatives in writing simultaneously to the Independent Consultant and FINRA staff. Within 15 business days of receipt of any proposed alternative procedure, the Independent Consultant shall: (i) reasonably evaluate the alternative procedure and determine whether it will achieve the same objective as the Independent Consultant's original recommendation; and (ii) provide the Firm and FINRA staff with a written decision reflecting his or her determination. The Firm will abide by the Independent Consultant's ultimate determination with respect to any proposed alternative procedure and must, within 30 days of the Independent Consultant's ultimate determinations, adopt and implement all recommendations deemed appropriate by the Independent Consultant.

- c. Within 35 days after the issuance of the later of the Independent Consultant's Written Report or written determination regarding alternative procedures (if any), Foothill shall provide FINRA staff with a written implementation report, certified by an officer of Foothill, attesting to, containing documentation of, and setting forth the details of the Firm's implementation of the Independent Consultant's recommendations.
- d. Upon written request showing good cause, FINRA staff may extend any of the procedural dates set forth above.

Respondents agree to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. Respondents have submitted Election of Payment forms showing the method by which they propose to pay the fines imposed.

Respondents specifically and voluntarily waive any right to claim that they are unable to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

Respondent Shipp understands that if he is barred or suspended from associating with any FINRA member in a principal capacity, he becomes subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, he may not be associated with any FINRA member in a principal capacity during the period of the bar or suspension (see FINRA Rules 8310 and 8311). Furthermore, because he is subject to a statutory disqualification during the principal suspension, if he remains associated with a member firm in a non-suspended capacity, an application to continue that association may be required.

The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondents specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against them;
- 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, Respondents specifically and voluntarily waive any right to claim bias or prejudgment 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.

Respondents further specifically and voluntarily waive 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

Respondents understand 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 the Respondents; and**
- C. If accepted:**
 - 1. this AWC will become part of Respondents' permanent disciplinary records and may be considered in any future actions brought by FINRA or any other regulator against them;**
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about Respondents' disciplinary records;**
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and**
 - 4. Respondents 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. Respondents 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 Respondents': (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. Respondents may attach Corrective Action Statements to this AWC that are statements of demonstrable corrective steps taken to prevent future misconduct. Respondents understand that they may not deny the charges or make any statement that is inconsistent with the AWC in these Statements. These Statements do not constitute factual or legal findings by FINRA, nor do they 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 the Firm 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.

12/24/14
Date (mm/dd/yyyy)

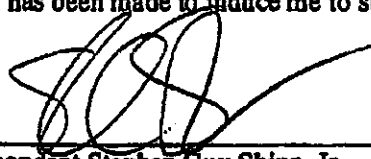
Stephen H. Chipman
Respondent Foothill Securities, Inc.

By: Stephen H. Chipman President & CEO
(Print Name and Title)

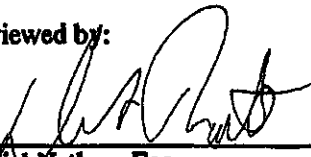
Reviewed by: [Signature]
Daniel Nathan, Esq.
Counsel for Respondent Foothill Securities, Inc.
Morrison & Foerster LLP
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Washington, DC 20006-1888
(202) 887-1687 – Tel.

I certify that I have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that I have 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 me to submit it.

12-22-2014
Date (mm/dd/yyyy)


Respondent Stephen Guy Shipp, Jr.

Reviewed by:


Daniel Nathan, Esq.
Counsel for Respondent Stephen Guy Shipp, Jr.
Morrison & Foerster LLP
2000 Pennsylvania Avenue, NW
Washington, DC 20006-1888
(202) 887-1687 – Tel.

Accepted by FINRA:

12/30/2014
Date

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


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