

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2013034954002**

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

RE: Hilltop Securities Independent Network, Inc., Respondent
FINRA Member Firm
CRD No. 17587

Douglas Hodges, Respondent
General Securities Principal
CRD No. 4253217

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Hilltop Securities Independent Network, Inc., which was formerly known as SWS Financial Services, Inc., ("Hilltop") and Douglas Hodges ("Hodges") (Collectively, "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

Hilltop is currently, and was during all times relevant hereto, a member of FINRA and the Municipal Securities Rulemaking Board. The firm is also registered as a broker/dealer with the Securities and Exchange Commission. Hilltop registered with FINRA in April 1986 as a full service broker-dealer and is headquartered in Dallas, Texas.¹ The firm employs 136 registered personnel consisting primarily of registered representatives located in offices of supervisory jurisdiction ("OSJ")

¹ In January 2015, SWS Financial Services, Inc. and its parent, SWS Group, Inc., were acquired by Hilltop Holdings, Inc., a publicly traded firm on the NYSE. After the acquisition, SWS Financial Services, Inc. became known as Hilltop. The conduct in this matter occurred prior to Hilltop being acquired by Hilltop Holdings, Inc.

and single-person, non-OSJ offices throughout the United States. Hilltop currently operates 161 branch offices.

Hodges entered the securities industry in August 2000, when he associated with Hilltop as a non-registered fingerprint person. Hodges registered with FINRA in September 2000, when he obtained a Series 7 securities license. Hodges subsequently obtained Series 24 and 66 securities licenses. He has remained continuously associated with Hilltop since August 2000. During his tenure with Hilltop, Hodges was also concurrently associated with two other FINRA member firms, including Hilltop's affiliated broker-dealer Hilltop Securities, Inc. during the period from November 2014 to the present. During the relevant time period, Hodges served as a Regional OSJ Manager who was responsible for supervising approximately 70 registered representatives.

Neither Hilltop nor Hodges has any prior relevant disciplinary history.

OVERVIEW

During the period from May 2012 through March 2014, Hilltop, acting through Regional OSJ Manager Hodges, failed to reasonably supervise a registered representative's unsuitable investment recommendations to customers, in violation of NASD Rule 3010 and FINRA Rule 2010. Additionally, Hilltop violated NASD Rule 3010 and FINRA Rule 2010 by failing to establish, maintain and enforce a reasonable supervisory system to detect and prevent unsuitable short-term trading and/or switching of open-end mutual funds ("OMFs") and unit investment trusts ("UITs"), and unsuitable trading in closed end funds ("CEFs"), in customer accounts.

FACTS AND VIOLATIVE CONDUCT

NASD Conduct Rule 3010(a) requires each member firm to establish, maintain, and enforce a supervisory system, including 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 that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable NASD (and FINRA) Rules.

An individual to whom supervisory authority is delegated violates NASD Rule 3010 by failing to carry out his delegated responsibilities in a reasonable manner and/or by failing to enforce a FINRA member firm's written supervisory procedures.

FINRA Rule 2010 provides that "[a] member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade."

During the period from May 2012 through March 2014 ("relevant time period"), a

Hilltop registered representative engaged in unsuitable short-term trading and switching in OMFs and/or UITs in four different customer accounts, and engaged in unsuitable trading in CEFs in two of the four customers' accounts. Three of the four investors lost a total of \$5,329.75 as a result of the representative's unsuitable trading activity.

During the relevant time period, Hilltop and Hodges failed to reasonably supervise the registered representative's activities. Specifically, in seven instances, Hilltop, acting through Hodges, failed to obtain required switch letters from the representative for certain OMF and/or UIT transactions that the representative had executed in customer accounts. Hilltop's written supervisory procedures ("WSPs") required the completion of a switch letter anytime a customer switched from a variable product, OMF or UIT to another similar security. Hodges was alerted to missing switch letters via an alert from the compliance software system utilized by Hilltop. In six instances, Hodges noted that he had emailed the representative and requested the missing switch letter. However, prior to receiving a response back from the representative, Hodges marked each alert as "resolved" and the alert was closed without the required switch letter being received. Even when required switch letters were submitted by the representative, Hilltop and Hodges failed to follow-up on red flags in the submitted letters. For example, Hilltop and Hodges failed to investigate a missing date for the original securities purchase on a switch letter, failed to investigate vague rationales for the switch transactions that were contained on certain switch letters; and failed to investigate similar rationales on switch letters for several unrelated customers. Hilltop and Hodges' failure to reasonably supervise the registered representative's activities contributed to the above-described customer losses.

As part of Hilltop's supervisory system, the firm's supervisors also received alerts for actively traded accounts. Hilltop's WSPs required supervisors to conduct active account reviews through the use of the firm's blotters and/or its compliance software system. The WSPs also required that the reviews be documented by completing an *Active Account Review* form or documenting the review in the compliance software system. During the period from July 2012 to January 2014, 12 active account alerts were triggered for trading activity in the representative's customer accounts, including eight for the accounts of the four customers at issue. Each alert was "closed by the system," and there was no documented evidence that any action had been taken in response to the alert. Hodges did not document his reviews by completing an *Active Account Review* form or making notations in the compliance software system as required by Hilltop's WSPs.

Hilltop failed to have a reasonable supervisory system to detect patterns of unsuitable short-term trading and/or switching of OMFs and UITs, or unsuitable trading of CEFs. The parameters of the firm's automated compliance software system were too limited to detect unsuitable trading, and the volume of transactions being manually reviewed by individual supervisors was too high for

the supervisor to be able to reasonably detect patterns and trends of possible unsuitable trading activity.

By virtue of the foregoing, Hilltop and Hodges violated NASD Rule 3010 and FINRA Rule 2010.

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

Hilltop: a censure, \$40,000 fine, and restitution in the amount of \$5,329.75.

Hodges: a 15 business day suspension in all principal capacities and a fine in the amount of \$5,000.

Respondents agree to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. Each Respondent has submitted an Election of Payment form showing the method by which the Respondent proposes to pay the fine 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 Hodges understands that if he is 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, Respondent Hodges may not be associated with any FINRA member in any principal capacity, during the period of the suspension (see FINRA Rules 8310 and 8311). Furthermore, because Respondent Hodges is subject to a statutory disqualification during the suspension, if he remains associated with a member firm in a non-suspended capacity, an application to continue that association may be required.

Respondent Hilltop is ordered to pay Restitution to the customers listed on "Attachment A" hereto in the total amount of \$5,329.75, plus interest at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 U.S.C. 6621(a)(2), from March 1, 2014, until the date this AWC is accepted by the NAC.

A registered principal on behalf of Respondent Hilltop shall submit satisfactory proof of payment of restitution or of reasonable and documented efforts undertaken to effect restitution. Such proof shall be submitted to Karen E. Whitaker, Senior Regional Counsel at the address listed below either by letter or by e-mail from the work-related account of the Hilltop registered principal to EnforcementNotice@FINRA.org. The letter and/or email shall identify the

Respondent and the case number. The proof shall be provided no later than 120 days after acceptance of the AWC.

If for any reason Respondent Hilltop cannot locate any customer identified in "Attachment A" after reasonable and documented efforts within 120 days from the date the AWC is accepted, or such additional period agreed to by a FINRA staff member in writing, 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 is last known to have resided. Respondent shall provide satisfactory proof of such action to the FINRA staff member identified above and in the manner described above, within 14 days of forwarding the undistributed restitution and interest to the appropriate state authority.

The imposition of a restitution order or any other monetary sanction herein, and the timing of such ordered payments, does not preclude customers from pursuing their own actions to obtain restitution or other remedies.

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 Respondents;
- 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 Respondents; and
- C. If accepted:
 - 1. this AWC will become part of Respondents' permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Respondents;
 - 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. 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 a Corrective Action Statement to this AWC that is a statement 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 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 Respondent Hilltop, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about 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 Respondent Hilltop to submit it.

6-13-2017
Date

Hilltop Securities Independent Network, Inc., Respondent

By:

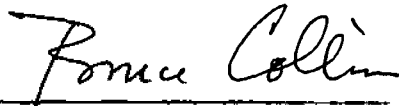
Michael Cogliano
Michael Cogliano CCO

Respondent Hodges certifies that he has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that he 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 him to submit it.

6-13-17
Date

Douglas Hodges
Douglas Hodges, Respondent

Reviewed by:

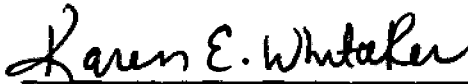


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Accepted by FINRA:

6/28/2017
Date

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



Karen E. Whitaker, Senior Regional Counsel
FINRA Department of Enforcement
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Dallas, TX 75243
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Email: karen.whitaker@finra.org

**ATTACHMENT “A”
to Letter of
Acceptance, Waiver and Consent**

CUSTOMER	RESTITUTION AMOUNT
SB	\$2,634.57
DT	\$2453.00
LH	\$242.18
TOTAL	\$5,329.75