

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2015043470101**

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

RE: Hilltop Securities Inc. (f/k/a Southwest Securities, Inc.), Respondent
Member Firm
[CRD No. 6220]

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Hilltop Securities Inc. ("Hilltop," the "Firm," or "Respondent") 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. Respondent 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

Hilltop has been a FINRA member since May 1972. Hilltop conducts a full service retail brokerage business and provides securities clearing services to over 135 correspondent firms. Hilltop, headquartered in Dallas, Texas, currently has approximately 581 registered individuals and 64 branch offices.

RELEVANT DISCIPLINARY HISTORY

Hilltop has the following relevant disciplinary history:

On March 15, 2013, FINRA accepted the Firm's AWC (No. 2009018102701) in which Hilltop consented to sanctions of a censure, fine of \$77,500, order to pay restitution in the amount of \$32,167.14 plus interest, and an undertaking to revise its written supervisory procedures for violations of MSRB ("Municipal Securities Rulemaking Board") Rules G-17, G-27, and G-30(a), and FINRA Rules 6730(a) and 2010 during the period October 1, 2008 through June 30, 2011.

On March 4, 2011, FINRA accepted the Firm's AWC (No. 2009016275601) in which Hilltop consented to sanctions of a censure, fine of \$500,000, and an undertaking to review its procedures and certify that they are adequate to ensure compliance with applicable MSRB rules for violations of MSRB Rules G-14, G-27, G-36, and G-38 during the period October 2006 through April 2009.

FACTS AND VIOLATIVE CONDUCT

MSRB Rule G-15(f) provides that brokers, dealers or municipal securities dealers shall not effect a customer transaction in municipal securities issued after June 1, 2002, in an amount lower than the minimum denomination of the issue, with certain exceptions not applicable in this matter.

MSRB Rule G-17 provides that each broker, dealer, municipal securities dealer, and municipal advisor shall deal fairly with all persons in the conduct of municipal securities or municipal advisory activities, and shall not engage in any deceptive, dishonest, or unfair practice. MSRB Notice 2002-05 provides that a dealer's failure to disclose an applicable minimum denomination, and to explain how this could affect the liquidity of the customer's position, would generally constitute a violation of Rule G-17. On July 5, 2014, MSRB Rule G-47 became effective. MSRB Rule G-47 effectively took the interpretative guidance regarding time of trade disclosures and codified them into a specific rule. As a result, any exceptions to time of trade disclosures prior to July 5, 2014 are violations of Rule G-17, and any exception thereafter are violations of Rule G-47.

MSRB Rule G-27(b) requires brokers, dealers and municipal securities dealers to establish and maintain a system to supervise the municipal securities 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 Board rules.

Between January 1, 2014 and June 1, 2015, Hilltop effected sixty-two municipal bond transactions in amounts below the minimum denomination set for the bonds being sold. Additionally, the Firm failed to provide disclosure at the time of the trade to the customers noting that said transaction was being effected below the minimum denomination. While the Firm had written supervisory procedures prohibiting the sale of municipal securities to customers below the minimum denomination, subject to certain exceptions, it did not have any systems or controls in place to prohibit sales below the minimum denomination.

As a result of the foregoing conduct, Hilltop violated MSRB Rule G-15(f), MSRB Rule G-17 (for transactions executed before July 5, 2014), MSRB Rule G-47 (for transactions executed after July 4, 2014), and MSRB Rule G-27(b).

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

- A censure and a fine in the amount of \$40,000 (all of which pertains to the violations of MSRB Rules G-15, G-17, G-47, and G-27).

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

Respondent specifically and voluntarily waives any right to claim that the Firm am 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

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

- A. To have a Complaint issued specifying the allegations against the Firm;
- 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, Respondent specifically and voluntarily waives 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.

Respondent 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

Respondent 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 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 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.** 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: (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.** The Firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The Firm 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.

05/12/2016
Date (mm/dd/yyyy)

By: W. H. Glavin
(Signature)

Name: Mike Cagliano
(Print Name)

Title: Chief Compliance Officer

Counsel for Respondent

May 31, 2016
Date


Sarah B. Belter-Pylant, Senior Regional Counsel
FINRA Department of Enforcement
1100 Poydras Street
Energy Centre, Suite 850
New Orleans, Louisiana 70163-1108
Phone: 504/412-2406; FAX: 504/522-4077