

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2015043587602**

TO: Department of Enforcement
Financial Industry Regulatory Authority

RE: Huntleigh Securities Corporation, Respondent
CRD No. 7456

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Huntleigh Securities Corporation 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 Huntleigh 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

Huntleigh Securities Corporation ("Huntleigh" or "Firm") has been registered with FINRA and the SEC as a broker-dealer since 1977. It currently has 61 registered individuals operating out of six branch offices and the firm's home office, which is in St. Louis, Missouri.

RELEVANT DISCIPLINARY HISTORY

In September 2014, Huntleigh was censured and fined \$20,000 by FINRA in matter no. 2013035278601 for failing to establish and maintain a supervisory system reasonably designed to comply with all applicable securities laws and regulations regarding the sale of nontraditional exchange-traded funds.

OVERVIEW

Between May 1, 2010 and April 30, 2015, Huntleigh failed to apply sales-charge discounts to certain customers' eligible purchases of unit investment trusts (UITs), in violation of FINRA Rule 2010. During that time, the Firm also failed to establish and maintain a supervisory system and written supervisory procedures

that were reasonably designed to monitor for and apply sales-charge discounts to eligible UIT purchases, in violation of NASD Conduct Rule 3010 and FINRA Rules 3110 and 2010.¹

In addition, between January 2011 and February 2015, the Firm failed to establish and maintain a supervisory system and written supervisory procedures reasonably designed to detect and prevent unsuitable short-term trading of UITs and mutual funds, in violation of NASD Conduct Rule 3010 and FINRA Rules 3110 and 2010.²

FACTS AND VIOLATIVE CONDUCT

1. Unit Investment Trusts

A UIT is a SEC-registered investment company that offers shares, or “units,” in a portfolio of securities in a public offering. Generally, a UIT’s portfolio is not actively traded and follows a “buy-and-hold” strategy. A UIT terminates on a specified maturity date, often after 15 or 24 months, at which point the underlying securities are sold and the resulting proceeds are paid to the investors.

UITs impose a variety of sales charges. For example, between 2010 and 2015, a typical 24-month UIT included (1) an initial sales charge, which was 1% of the purchase price, and (2) a deferred sales charge, which was 2.45% to 3.45% of the offering price. Also, most UIT sponsors charged a creation and development fee (“C&D fee”), which was generally 0.5% of the offering price.³ The deferred sales charge and C&D fee typically were charged during months three through six of the UIT’s term. A registered representative who repeatedly recommended the sale of a customer’s UIT position before the maturity date and rolled that investment into a new UIT would cause the customer to incur increased sale charges over time.

UIT sponsors offer investors a variety of ways to reduce the sales fee charged on a UIT purchase. The two most common methods to reduce the fee are “breakpoints,” which allow investors to reduce the sales fee by increasing the size of their UIT investments, and discounts on “rollovers” and “exchanges”⁴ (collectively “sales charge discounts”). If the proceeds from a UIT sale were

¹ The violation of NASD Conduct Rule 3010 applies to conduct occurring before December 1, 2014, and FINRA Rule 3110 applies to conduct occurring thereafter.

² See note 1.

³ In addition to these charges, most UITs charge annual operating expenses that are paid to the sponsor out of the assets of the UIT.

⁴ UIT rollover and exchange discounts are generally offered to investors who use the redemption or termination proceeds from one UIT to purchase another UIT, either from the same UIT series (rollover) or a different UIT (an exchange). Generally, in order to receive the rollover or exchange discount, proceeds used to purchase the UIT must have come from a UIT transaction that occurred within the previous 30 days. In both rollovers and exchanges, the customer generally receives a discount of 1% of the public offering price.

rolled over to a new UIT, the initial sales charge on the new UIT was typically waived, but the deferred sales charge and C&D fee still applied.

Because of the long-term nature of UITs, their structure, and upfront costs, short-term trading of UITs may be improper and raises suitability concerns.

2. Huntleigh failed to ensure that customers received more than \$47,000 in sales-charge discounts on UITs.

On March 31, 2004, FINRA issued Notice to Members 04-26, *Unit Investment Trust Sales*, which reminded broker-dealers that they should develop and implement procedures to ensure customers receive available sales charge discounts for UITs. The Notice further stated that UIT transactions must take place "on the most advantageous terms available to the customer" and that it is the firm's responsibility to "take appropriate steps to ensure that they and their employees understand, inform customers about, and apply correctly any applicable price breaks available to customers in connection with UITs."

Between May 1, 2010 and April 30, 2015, however, Huntleigh failed to identify and apply sales-charge discounts to certain customers' eligible purchases of UITs. Huntleigh failed to identify and apply sales-charge discounts to 214 eligible UIT purchases. This resulted in the affected customers paying excessive sales charges of \$47,591 for those transactions. Huntleigh has since paid full restitution, with interest, to the affected customers.

Through this conduct, Huntleigh violated FINRA Rule 2010.

3. Huntleigh's supervisory system was not reasonably designed to ensure the application of sales-charge discounts to eligible UIT purchases.

Also between May 1, 2010 and April 30, 2015, Huntleigh failed to establish and maintain a supervisory system and written supervisory procedures reasonably designed to ensure that customers received sales-charge discounts to which they were entitled on UIT purchases. The firm did not have a system or procedure, whether written or informal, to ensure that sales-charge discounts were applied to all qualifying purchases, but instead relied on its clearing firm to apply any applicable discounts.

Through this conduct, Huntleigh violated NASD Conduct Rule 3010 and FINRA Rules 3110 and 2010.

4. Huntleigh's supervisory system was not reasonably designed to detect and prevent unsuitable short-term trading of mutual funds and UITs.

In addition, between January 2011 and February 2015, Huntleigh failed to establish and maintain a supervisory system and written supervisory procedures reasonably designed to prevent unsuitable short-term trading of UITs and mutual-fund switching.

For example, although the firm's written supervisory procedures contained one section regarding mutual-fund switching and a section entitled "excessive trading (churning)," Huntleigh did not set forth specific procedures designed to prevent mutual-fund switching, excessive trading, or churning, and did not specifically address UIT trading. Also during this period, the firm did not provide its registered personnel with any training or instruction regarding appropriate holding periods for UITs.

Further, Huntleigh had an inadequate system for detecting potentially unsuitable short-term UIT rollovers and mutual-fund switches. Between 2011 and 2015, Huntleigh's supervision of UIT and mutual-fund activity was similar to its supervision of other securities for which it relied primarily on a daily trade-supervision system. That system, however, was only configured to detect mutual-fund and UIT sales that occurred within 90 days of the corresponding purchase date, resulting in the detection of only a small fraction of potentially unsuitable trading in these products. Further, while other compliance reports may have identified for other reasons accounts in which mutual-fund switching and short-term UIT trading was occurring, the firm never evaluated whether UITs or mutual funds were being used inappropriately as short-term trading vehicles.

The firm's unreasonable supervisory system allowed mutual-fund switching and short-term UIT trading to go undetected. A registered representative of the firm, Jeffrey Kinder, recommended mutual-fund switching and short-term UIT trading to five Huntleigh customers between 2011 and 2015, resulting in these customers incurring \$98,252.33 in excessive sales charges over this period.

Based on the foregoing, Huntleigh violated NASD Conduct Rule 3010 and FINRA Rules 3110 and 2010.⁵

B. Respondent also consents to the imposition of the following sanctions:⁶

- a Censure;
- a requirement that Huntleigh pay a total of \$98,252.33 in restitution to customers; and
- a written certification by Huntleigh's chief executive officer, as detailed below:

⁵ See note 1.

⁶ Consistent with FINRA's *Sanction Guidelines* and the *General Principles Applicable to All Sanctions Determinations*, FINRA considered the Firm's small size, its financial resources, ability to pay and other factors in tailoring sanctions that are appropriately and proportionally remedial, but not punitive, and which will remedy the misconduct and discourage the recurrence of the misconduct. See also Notice to Members 06-55.

Huntleigh agrees to review, and modify as necessary, its compliance policies and supervisory procedures designed to achieve compliance with applicable FINRA rules and other securities laws and regulations, including, without limitation, those related to: i) the suitability of sales of investment company and structured products to retail investors, including without limitation, unit investment trusts and multi-share class mutual funds; and ii) the review of all fees, charges, breakpoints and other discounts that may apply to such sales.

Within 120 days after the acceptance of this AWC, Huntleigh's chief executive officer shall provide a written certification to Adam Walker, Senior Regional Counsel, at the address listed below, that (i) Huntleigh has completed the review described above, and (ii) as of the date of the certification, Huntleigh has established and implemented systems, policies, and procedures (written and otherwise) that are reasonably designed to achieve compliance with the applicable securities laws and rules cited herein. The certification shall describe the specific actions taken by Huntleigh, including the systems, policies, and procedures (written or otherwise) that it has developed and implemented.

Restitution is ordered to be paid to the customers listed on Attachment A hereto in the total amount of \$98,252.33 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 April 30, 2015 until the date this AWC is accepted by the NAC.

A registered principal on behalf of Huntleigh shall submit satisfactory proof of payment of restitution or of reasonable and documented efforts undertaken to effect restitution. Such proof shall be submitted to Adam Walker, 120 W. 12th Street, Kansas City, Missouri 64105, either by letter that identifies Huntleigh Securities Corp. and Exam number 2015043587601, or by e-mail from a work-related account of the registered principal of Respondent firm to EnforcementNotice@FINRA.org. This proof shall be provided to the FINRA staff member listed above no later than 120 days after acceptance of the AWC.

If for any reason Respondent 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.

Respondent has specifically and voluntarily waived any right to claim an inability

to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

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

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 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, 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 Respondent; and
- C. If accepted:
 - 1. This AWC will become part of Respondent'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. Respondent 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. Respondent 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 Respondent'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. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent 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 Respondent, certifies that a person duly authorized to act on its behalf has read and understood all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Respondent 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.

12/08/2017
Date (mm/dd/yyyy)

Respondent
Huntleigh Securities Corporation

By: Catherine T. Marshall, CCO

Accepted by FINRA:

1/26/2018
Date

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


Adam B. Walker
Senior Regional Counsel
FINRA Department of Enforcement
120 W. 12th Street
Kansas City, Missouri 64105
(816) 802-4751
adam.b.walker@finra.org

EXHIBIT A

CUSTOMER	RESTITUTION AMOUNT
R&JB	\$19,358.77
JG	21,087.98
MM	12,186.68
DW	\$17,771.89
G&LW	\$27,847.01
Total:	\$98,252.33

STATEMENT OF CORRECTIVE ACTION SUBMITTED BY HUNTLEIGH SECURITIES CORPORATION ("HUNTLEIGH"), IN CONNECTION WITH FINRA LETTER OF ACCEPTANCE, WAIVER AND CONSENT ("AWC") NO: _____

Huntleigh submits this Statement of Corrective Action in connection with the foregoing AWC to demonstrate the steps it has taken to reduce the risk of recurrence of the issues addressed therein.

Since the time FINRA commenced the investigation described in the AWC, Huntleigh has taken significant steps to improve its processes for supervision of mutual fund and UIT trading activity, and documentation of those reviews. Huntleigh has revised its Written Supervisory Procedures ("WSPs") and otherwise enhanced its various supervisory processes to, among other things, (1) provide improved mechanisms for reviewing and effecting application of mutual fund breakpoints; (2) identify mutual fund or UIT switches for additional scrutiny and customer disclosure; and (3) identify possible U4 lien/judgment disclosure issues.

Following the commencement of the FINRA investigation and several months before issuance of the foregoing AWC, the firm amended its WSPs to require creation of weekly reports documenting mutual fund and UIT transactions or "switches" identified as relevant for further review via the firm's supervision platform. Under the revised WSPs, trades or "switches" that fall within identified parameters are the subject of client acknowledgement letters, and the WSPs further provide that firm representatives are encouraged to obtain "switch" letters prior to or at the time of a transaction.

The firm is also maintaining documentation on the review of mutual fund breakpoints and short-term mutual fund trading. In the event that a breakpoint may have been missed, compliance staff reviews the same for rebilling.

The WSPs were also amended to provide that where the firm's human resources staff receives notice of a garnishment or other collection efforts concerning a registered representative, that staff is to report and discuss the same with the firm's compliance staff for determination as to whether appropriate disclosures have been made.

This Corrective Action Statement is submitted by Huntleigh Securities Corporation. It does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA, or its staff.