

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2017053708001**

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

RE: Hilltop Securities, Inc.
CRD No. 6220

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Hilltop Securities, Inc. ("Hilltop," "Respondent," 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 Respondent 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 and MSRB member since May 1972. Hilltop conducts a full-service retail brokerage business and provides securities clearing services to over 150 introducing/correspondent firms. Hilltop, headquartered in Dallas, Texas, currently has approximately 492 registered individuals and 69 branch offices.

Hilltop Holdings, Inc. completed its acquisition of SWS Group, Inc. on January 1, 2015. SWS's broker-dealer subsidiaries, including Southwest Securities, Inc., became subsidiaries of Hilltop Securities Holdings, LLC, a holding company directly under Hilltop Holdings, Inc. and the successor of SWS Group, Inc. in the merger. In connection with the merger, First Southwest Company, LLC, a separate broker dealer, and its related entities also became subsidiaries of Hilltop Securities Holdings LLC. First Southwest Company, LLC and Southwest Securities, Inc. subsequently merged into what is now Hilltop Securities, Inc., which was completed on January 25, 2016.

RELEVANT DISCIPLINARY HISTORY

Hilltop has no relevant disciplinary history.

OVERVIEW

Between February 1, 2015 and April 30, 2016 (the “AML Relevant Period”), Hilltop failed to establish and implement an AML compliance program reasonably designed to detect and report suspicious trading activity in low-priced securities. During the AML Relevant Period, customers introduced to Hilltop traded at least 2.07 billion shares of low-priced securities, valued at approximately \$221 million. These 2.07 billion shares were not subject to a reasonable review to detect and investigate red flags of suspicious activity for purposes of determining whether to file a suspicious activity report (“SAR”). Specifically:

- The Firm failed to follow the Department of Treasury’s standard for determining whether to file a SAR – requiring proof of actual fraud as opposed to suspicion that a transaction involved unlawful activity or lacked an apparent lawful purpose;¹
- Hilltop failed to implement its AML procedures requiring the collection and completion of Deposit Review Forms in connection with the deposit of low-priced securities, resulting in missed red flags of potentially suspicious activity; and
- Hilltop’s AML compliance program failed to reasonably detect and report suspicious trading activity, in part, because Hilltop failed to devote adequate resources to its AML program. Hilltop’s two to three AML analysts were tasked with reviewing a report that did not provide for a reasonable AML review. Due to deficiencies in the report, the analysts did not use risk-based factors to choose transactions for review and, based on sample reviewed by the Staff, were only able to review approximately 20% of the transactions; these 20% were not the highest risk transactions at the Firm.

As a result of this conduct, Hilltop violated FINRA Rules 3310(a) and 2010.

Additionally, from July 2011 to March 2016 (the “MSRB Relevant Period”), Hilltop failed to submit Form G-32 information to the Electronic Municipal Market Access System (“EMMA”) in connection with 122 primary offerings of municipal securities. The Firm also made four Form G-32 filings to EMMA that were between 1 and 3 days late. Such conduct violated MSRB Rule G-32. Furthermore, between January 2012 and September 2015, Hilltop failed to provide required MSRB Rule G-17 disclosure letters to issuers in connection with 119 of the 122 offerings plus one other offering, in violation of

¹ See, 31 C.F.R., § 103.19(a)(1), providing that, “[e]very broker or dealer in securities within the United States . . . shall file with FinCEN . . . a report of any suspicious transaction relevant to a possible violation of law or regulation.”

MSRB Rule G-17. Finally, from October 2014 to September 2015, in connection with 45 of the 122 offerings, the Firm failed to report on Form G-37 that it had conducted municipal securities business. As a result of this conduct, Hilltop violated MSRB Rule G-37.

FACTS AND VIOLATIVE CONDUCT

AML Rule Violations

A. Hilltop's AML Program Was Not Reasonably Designed to Detect and Cause the Reporting of Potentially Suspicious Activity.

FINRA Rule 3310 requires FINRA regulated broker-dealers to “develop and implement a written anti-money laundering program reasonably designed to achieve and monitor [their] compliance with the requirements of the Bank Secrecy Act (31 U.S.C. 5311, *et seq.*) and the implementing regulations thereunder. . . .” Under FINRA Rule 3310(a), the program must, at a minimum, establish and implement policies and procedures that “can be reasonably expected to detect and cause the reporting of” transactions required to be reported under 31 U.S.C. § 5318(g) and the implementing regulations thereunder. A violation of FINRA Rule 3310(a) is also a violation of FINRA Rule 2010, which requires FINRA regulated broker-dealers to observe “high standards of commercial honor and just principles of trade.”

Broker-dealers are also required to file “a report of any suspicious transaction relevant to a possible violation of law or regulation” pursuant to 31 C.F.R. §1023.320. The U.S. Treasury Department has instructed broker-dealers to determine whether trading activity raised suspicions by monitoring for various “red flags.”² FINRA issued guidance to member firms that they have a duty to (a) tailor their AML program to the particular risks of its business model, as well as its customer base; (b) monitor red flags of suspicious activity; and (c) where suspicious activity is detected, perform additional due diligence to determine whether or not to file a SAR.³

As described below, during the AML Relevant Period, the Firm's AML program was not reasonably designed to detect and report potentially suspicious activity.

1. The Firm Failed to Follow the Treasury Dept.'s Standard for Determining Whether to File a SAR.

Title 31 U.S.C. § 5318(g) authorizes the Department of the Treasury to issue suspicious activity reporting requirements for broker-dealers. The Department of the Treasury issued the implementing regulation, 31 C.F.R., § 103.19(a)(1), on July 1, 2002.⁴ It provided that, with respect to any transaction after December 30, 2002, “[e]very broker or

² 67 Fed. Reg. 44048 (July 1, 2002) (<http://www.treas.gov/fincen/brokersdealersarjuly2002.pdf>).

³ NASD Notices to Members 02-21 and 02-47.

⁴ On March 1, 2011, 31 C.F.R Part 103 was transferred to 31 C.F.R. Chapter X, resulting in a new citation of 31 C.F.R. § 1023.320(a) for this section. There were no substantive changes.

dealer in securities within the United States . . . shall file with FinCEN . . . a report of any suspicious transaction relevant to a possible violation of law or regulation.” Section (a)(2) of that regulation specifically provides:

A transaction requires reporting . . . if it is conducted or attempted by, at, or through a broker-dealer, it involves or aggregates funds or other assets of at least \$5,000, and the broker-dealer knows, suspects, or has reason to suspect that the transaction (or a pattern of transactions of which the transaction is a part):

- (i) Involves funds derived from illegal activity or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity (including, without limitation, the ownership, nature, source, location, or control of such funds or assets) as part of a plan to violate or evade any federal law or regulation or to avoid any transaction reporting requirement under federal law or regulation;
- (ii) Is designed, whether through structuring or other means, to evade any requirements of this part or of any other regulations promulgated under the Bank Secrecy Act, . . . ;
- (iii) Has no business or apparent lawful purpose or is not the sort in which the particular customer would normally be expected to engage, and the broker-dealer knows of no reasonable explanation for the transaction after examining the available facts, including the background and possible purpose of the transaction; or
- (iv) Involves the use of the broker-dealer to facilitate criminal activity.

When the Firm reviewed low-priced securities transactions, the Firm applied an unreasonably high threshold for the filing of SARs. As a result, the Firm routinely failed to consider filing a SAR on suspicious activity concerning low-priced securities in multiple instances. Under 31 C.F.R. § 1023.320(a) (2), the Firm is required to file a SAR for any transaction that it knows, suspects, or has reason to suspect “has no business or apparent lawful purpose or is not the sort in which the particular customer would normally be expected to engage.” Although the Firm’s written supervisory procedures tracked language in 31 C.F.R. § 1023.320(a) regarding the threshold for SAR filing, in practice, the Firm would not file a SAR unless it had evidence proving that the low-priced security was part of a fraudulent scheme, even where activity triggered multiple red flags. The Firm’s SAR filing threshold would not reasonably be expected to cause the reporting of suspicious transactions considering that 31 C.F.R § 1023.320 states broker-dealers are required to report “any suspicious transaction relevant to a **possible** violation of law or regulation.” (Emphasis added).

2. Hilltop Failed to Review Red Flags due to its Failure to Implement its AML Procedures Regarding Receipt of Low-priced Securities.

The Firm's AML Procedures regarding Low-Priced Securities

The Firm's written AML procedures required its associated persons to collect and complete Deposit Review Forms for all receipt of low-priced securities positions. These forms required, among other things, information on whether the stock had undergone a reverse merger in the prior year; whether the stock had undergone a name or business change; the number of shares owned by the customer overall, including at other firms; revenue of the issuer; the exchange on which the stock was listed; and the total outstanding shares of the stock on the market.

A review of low-priced securities deposits revealed that Hilltop routinely failed to obtain the Deposit Review Forms required by its AML procedures. When Hilltop did obtain the Deposit Review Forms, many in the sample reviewed were inaccurate or incomplete, including forms with incorrect figures for total shares outstanding or public float, inaccurate representations regarding where the stocks were listed, inaccurate representations regarding recent reverse mergers or other reorganizations, and inaccurate representations about the customer having additional shares of an issuer for sale.

The Firm's Failure to Implement its Low-Priced Securities Procedures as to Customer 1

Hilltop's failure to implement its procedures requiring the completion of Deposit Review Forms resulted in the failure of the Firm to review for red flags in millions of shares deposited by Customer 1 during the AML Relevant Period. Even when it was aware of Customer 1's activity, the Firm failed to recognize the potentially suspicious nature of the activity, in part, because of the unreasonably high threshold for SAR filing applied by the Firm.

Customer 1 was introduced to Hilltop by FINRA member firm Introducing Firm A which cleared through Hilltop. In 2012, FINRA fined Introducing Firm A's CCO, Individual 1, \$50,000 and suspended him in all capacities for three months because of his failures to monitor, detect, and investigate suspicious low-priced securities deposits and sales. Individual 1 signed the Deposit Review Forms for Introducing Firm A's customers, including Customer 1, which made it especially important for Hilltop to closely monitor these deposits. Customer 1's business involved loaning capital to small market companies via convertible debentures, which meant the loans were often repaid through transfer and liquidation of shares of low-priced securities, which presented risks of money laundering and unregistered distributions, among others.⁵ During the AML

⁵ This business model is sometimes referred to as toxic debt financing or death spiral financing. The SEC has previously warned that "Certain convertible securities, particularly those referred to as 'toxic' or 'death spiral' convertibles, present the temptation for persons holding the convertible securities to engage in manipulative short selling of the issuer's stock in order to receive more shares at the time of conversion." <https://www.sec.gov/news/press/2003-26.htm>.

Relevant Period, activity in the accounts of Customer 1 represented 25% of Hilltop's overall clearing of transactions in low-priced securities.

In 2015, the CEO of Customer 1 opened another account at Hilltop for the purpose of depositing shares of a low-priced company. In June 2015, the low-priced company underwent a 1:150 reverse stock split, which temporarily increased the price from \$0.046 to \$7.00 per share. Publicly available information also reflected that the low-priced company had recently changed its name, industry and business focus. As of June 2015, the low-priced company was still a development stage company, had generated no revenue, and had a deficit of \$55 million. The name, industry and business change, lack of revenue, and the reverse stock split all presented heightened risk that the low-priced company could be involved in fraudulent activity.

Two accounts controlled by Customer 1 made 31 deposits of the low-priced company, totaling approximately 40 million shares during the AML Relevant Period. The deposits were followed by immediate liquidations and wiring out of funds. Also, none of the forms disclosed that the low-priced company had undergone a 1:150 reverse split, despite specific questions on the form and the fact that the information was publicly available in SEC Filings and on the OTC markets website. Reverse splits are a red flag listed in the Firm's procedures and should have been detected and prompted an inquiry regarding whether the Firm should file a SAR, particularly in light of the Customer 1's business of toxic debt financing and pattern of depositing stocks followed by immediate liquidation.

In the case of Customer 1, Hilltop failed to apply certain of its procedures to review of deposits by Customer 1. For example, the Deposit Review Forms represented that Customer 1 did not have additional shares for sale despite the Firm's knowledge of Customer 1's outstanding convertible debentures with the issuers and Customer 1's repeated pattern of converting, depositing, and immediately selling shares obtained via these convertible debentures. The Low-Priced Deposit Review Forms also inaccurately represented that Customer 1 did have not shares outside of the firm despite contrary indications in the documents produced. Importantly, these inaccurate/incomplete entries were relevant to red flags within the Firm's procedures.

The failure to implement its AML procedures meant that Hilltop accepted deposit of millions of shares of low-priced securities without having sufficient information to perform a review for red flags. Without this information, Hilltop could not make a reasonable determination regarding the suspicious nature of the transactions and whether a SAR filing was warranted.

The Firm's Failure to Implement its Low-Priced Securities Procedures to Detect Potentially Suspicious Trading Activity as to Individuals 2 and 3

Introducing Firm B was another introducing firm for whom Hilltop provided clearing services. Introducing Firm B had four accounts for Individual 2 and Individual 3. Together Individual 2 and Individual 3 were responsible for over 78% of Introducing Firm B's total low-priced securities volume and traded in 930 different low-priced

securities issuers during the AML Relevant Time Period. These trades were entered and executed through Introducing Firm B's order management system, which made it difficult for Hilltop to identify the number of orders Individuals 2 and 3 executed.

Many of the issuers of these securities had no material operations or revenues, and were the subject of promotional campaigns. Additionally, Individual 2's and 3's accounts' trading activity at times comprised over 50% of the material portion of daily trading volume⁶ with certain orders occurring before market open (or close) at prices above the National Best Bid and Offer price. Taken together, this activity should have triggered red flags of potentially suspicious activity.⁷

Individual 2's five related accounts and Individual 3's account routinely appeared on the Firm's Daily Penny Stock Report ("DPS Report") between January and April 2016 with trading in the same securities. Furthermore, by mid-March 2016, the Firm learned that Individual 3 was allegedly involved in a manipulative trading scheme using convertible notes and that Individual 2, a former AMLCO, was sanctioned by FINRA for AML deficiencies involving low-priced securities.

Despite the Firm's awareness of red flags regarding the trading activity and the negative news regarding the individuals, the Firm failed to reasonably investigate the activity in the accounts. For example, Individual 3 heavily traded a technology stock between late January 2016 through mid-March 2016. At that time, the technology stock was delinquent on its financial statement disclosures to the SEC and was the subject of numerous paid promotional campaigns, including one in December 2015 just prior to Individual 3's activity. Individual 3's trading was between 50 and 100 percent of the total daily market volume on 15 of his 24 trading days (or 62 percent). Although the Firm's AML procedures identified market domination and marking the close/open as red flags of suspicious trading activity, requiring investigation, the Firm had no reports to assist analysts in detecting this activity.

In another example, Individual 2 heavily traded a development stage company between late January 2016 and later April 2016. At that time, the development stage company was eight years delinquent on its financial disclosures to the SEC. Individual 2's trading accounted for at least 60 percent of the daily trading volume on 10 of his 30 (33 percent) trading days, and over 90 percent on 5 of his 30 trading days (17 percent). Individual 2's trading also raised red flags due to the timing of his trades. During the AML Relevant Period, Individual 2 made 3,678 purchases of low-priced securities. The volume and timing of the trades presented red flags of potentially suspicious trading activity.

A Hilltop AML analyst reviewed activity in Individual 2 and 3's accounts, but did not detect any red flags, commenting in the DPS Report that "activity appears normal." The

⁶ The Firm's procedures identified client activity representing more than 50 percent of the OTC bulletin board trading volumes to be a red flag.

⁷ This activity triggered the following red flags from the Firm's procedures: (1) the company had no business, no revenue, and no product; (2) there was heavy coverage by stock promoters; and (3) the client activity represented more than 50 percent of OTC bulletin board trading volumes.

analyst looked for signs of market manipulation by reviewing trading volume for an individual account compared to the daily volume of the issuer. However, due to the volume of activity detailed in the DPS Report, the analyst was unable to perform detailed reviews. The analyst, therefore, failed to identify activity in accounts owned by the same household and never calculated the total volume of activity for those accounts.

3. Hilltop Failed to Devote Adequate Resources to its AML Program, Causing Potentially Suspicious Activity to be Overlooked.

Hilltop's failure to devote adequate resources to its AML program caused the Firm to have an unreasonable system for detection and reporting of suspicious activity. During the AML Relevant Period, the primary report used by the Firm's AML analysts to review low-priced securities transactions for red flags was the Firm's DPS Report. Analysts manually created the report daily, using the Firm's blotter – a process that took between one and one and half hours. The DPS Report identified trading and transfer activity in stocks priced under \$1.00 where buys, sales, receipts, or delivery totaled at least 1,000 shares during the prior day. For those stocks, the DPS Report also provided a 90 day trading history and a 12 month receipt and delivery history. The information provided was generally limited to the issue, the number of shares, the price per share, and other information that could be extracted from the Firm's trading blotter. Although the Firm's procedures stated that research should be conducted when red flags were identified (e.g., incessant dilution, declining price with no material cause, history of reverse splits, heavy stock promotions), neither the DPS Report nor any other report was utilized to assist analysts in identifying these red flags.

Prior to the merger between Hilltop and First Southwest Company, LLC, the volume of the activity on the DPS Report for the prior 90 days was approximately 400 to 800 transactions. After the January 2016 merger, the number of daily low-priced securities transactions increased to approximately 250 transactions per day, and the 90-day activity reflected on the report increased to approximately 12,000 transactions on a rolling 90-day period. The increase in activity was primarily due to a half dozen actively traded accounts that transferred to Hilltop after the merger. During the AML Relevant Time Period, Hilltop had only two or three analysts assigned to review the DPS Report. Because of overall volume and lack of red flag indicators on the report, and the fact that trading data on the report changed daily, it was difficult for the Firm to identify and follow up on patterns of activity. The Firm was, thus, unable to use the report to conduct a reasonable review for potentially suspicious activity.

Specifically, prior to the merger, the Firm's analysts generally only reviewed transactions priced \$0.01 or less and 1 million or more shares traded. Post-merger, Hilltop issued a compliance memo in January 2016 changing the general criteria for the sampling to activity where the shares were priced \$0.50 cents or less and 1 million or more shares were traded. Nevertheless, the Firm's thresholds excluded 80% of the total value of penny stock transactions during the AML Relevant Time Period.

When the AML analysts selected a transaction for review, minimal analysis was performed, and the analysts' documentation of the review frequently failed to note any red flags identified or what steps, if any, were taken to investigate the red flags.

The lack of resources, both in terms of staff and systems, could not reasonably be expected to detect and cause the reporting of suspicious activity. The resource deficiencies contributed to the Firm's failure to detect the potentially suspicious trading activity engaged in by Individuals 2 and 3 discussed above. In addition, for 26 accounts with high volumes of low-priced securities, 16 of the accounts and seven of the 15 low-priced securities traded in those accounts received no AML reviews during the AML Relevant Period. A review of these transactions, however, indicate that at least 10 of the red flags specifically set forth in the Firm's procedures were present in these transactions.⁸ Although the Firm's AML procedures required review of transactions when these red flags were present, no AML review was done.

As a result of the foregoing, Respondent violated FINRA Rules 3310(a) and 2010.

MSRB Rule Violations

B. Hilltop Failed to Submit Required Form G-32 Information.

MSRB Rule G-32(b)(i)(A) requires, among other things, an underwriter of a primary offering of municipal securities to submit Form G-32 information, and any other applicable documents and information relating to the offering, in a timely and accurate manner as required by the rule. In relevant part, MSRB Rule G-32(b)(i)(B) requires an underwriter of a primary offering of municipal securities to submit the official statement to EMMA within one business day after receipt from the issuer or its designee, but by no later than the closing date. Pursuant to MSRB Rule G-32(b)(i)(C), if an offering is exempted from the preparation of an official statement, the underwriter shall submit to EMMA, by no later than the closing date: (1) notice that no official statement will be prepared; and (2) the preliminary official statement (or notice that no preliminary official statement has been prepared). The required notices are to be made via Form G-32. Pursuant to MSRB Rule G-32(b)(ii), if a primary offering advance refunds outstanding municipal securities and an advance refunding document is prepared, each underwriter in the offering shall, by no later than five business days after the closing date, submit: the advance refunding document to EMMA, and submit required Form G-32 information regarding the offering in the manner required by the rule.

⁸ Red flags present in these transactions included: (1) a pattern of receiving stock in physical form or the incoming transfer of shares, selling the position and wiring out proceeds; (2) companies experiencing frequent or continuous changes in its business structure; (3) customers who maintained multiple accounts, or maintained accounts in the names of family members or corporate entities with no apparent business or other purpose; (4) accounts for an associate or relative of a person with a history of securities violations; (5) certificates printed in recent months; (6) customers engaged in prearranged or other non-competitive trading of illiquid securities; (7) two or more accounts trade an illiquid stock suddenly and simultaneously; (8) trading patterns suggesting that the customer may have inside information; (9) a company that failed to make SEC or other regulatory filings; and (10) client activity representing more than 50 percent of OTC bulletin board trading volumes.

From July 2011 to October 2015, Hilltop failed to submit required Form G-32 information to EMMA in connection with 122 primary offerings of municipal securities for which the Firm served as placement agent. This failure was a result of a misunderstanding by one branch office of Southwest regarding the need to submit Form G-32 information for private placement primary offerings. Hilltop discovered these failures during its acquisition of Southwest and self-reported them to FINRA.

In addition, from January 2015 through March 2016, Hilltop also made four untimely Form G-32 filings to EMMA that were between 1 and 3 days late.

As a result of this conduct, Hilltop violated MSRB Rule G-32.

C. Hilltop Failed to Provide Rule G-17 Required Disclosure Letters.

MSRB Rule G-17 provides that “[i]n the conduct of its municipal securities activities, each broker, dealer, and municipal securities dealer shall deal fairly with all persons and shall not engage in any deceptive, dishonest, or unfair practice.” The MSRB has opined that a dealer’s affirmative disclosure obligations require that a dealer disclose, at or before the time of sale of municipal securities to a customer, all material facts concerning the transaction.⁹ The MSRB had further opined that G-17 requires an underwriter to make certain written disclosures to a municipal issuer to clarify its role in an issuance of municipal securities and its actual or potential material conflicts of interest with respect to such issuance (commonly known as a “G-17 letter”).

During the period from January 2012 to September 2015, Hilltop failed to provide required MSRB Rule G-17 letters to 119 of the issuers of the 122 offerings referenced above, plus one other issuer, as a result of its branch office’s misunderstanding regarding private placement primary offerings.

Hilltop discovered these failures as it trained Southwest employees during its acquisition of Southwest and self-reported them to FINRA.

As a result of this conduct, Hilltop violated MSRB Rule G-17.

D. Hilltop Failed to Submit Required Form G-37 Information.

MSRB Rule G-37(e)(i) requires broker-dealers to send to the MSRB, by the last day of the month following the end of each calendar quarter, a Form G-37 that includes, among other things, lists of contributions to officials of issuers, payments to political parties of states and political subdivisions, contributions to bond ballot campaigns, and issuers with which the broker-dealer has engaged in municipal securities business. MSRB Rule G-37(e)(i)(C) requires the quarterly Form G-37 submission to list by state, the municipal entities with which the regulated entity has engaged in municipal securities business or

⁹ See MSRB *Interpretive Notice Concerning The Application Of MSRB Rule G-17 To Underwriters Of Municipal Securities* - August 2, 2012.

municipal advisory business during such calendar quarter, along with the type of municipal securities business or municipal advisory business.

From October 2014 to September 2015, in connection with 45 of the 122 offerings for which Hilltop failed to submit G-32 information, the Firm also failed to report on Form G-37 that it had engaged in municipal securities business with the issuers by acting as placement agent in connection with the issuers' municipal securities offerings.

As a result of this conduct, Hilltop violated MSRB Rule G-37.

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

1. A censure;
2. A fine in the amount of \$475,000 (\$100,000 of which pertains to the violations of MSRB Rules G-17, G-32 and G-37); and,
3. An undertaking to engage an Independent Consultant, pursuant to which Hilltop shall:
 - a. Retain at its own expense one or more qualified independent consultants not unacceptable to FINRA, within 120 days of the date of the Notice of Acceptance of this AWC, to conduct a comprehensive review of the reasonableness of the Firm's policies, systems and procedures (written and otherwise) and training relating to compliance with FINRA Rule 3310 and the requirements of the Bank Secrecy Act, 31 USC §5311, *et. seq.*, and the regulations promulgated thereunder. This review shall include the Firm's policies, systems, and procedures relating to monitoring for, identifying, investigating, and responding to red flags of suspicious transactions with respect to low-priced securities.

The Independent Consultant's review must include the period from at least April 1, 2016 through the date of the Notice of Acceptance.

- b. The Independent Consultant, any Firm with which the Independent Consultant is affiliated or of which he/she is a member, and any person engaged to assist the Independent Consultant in performance of his/her duties, shall not have provided consulting, legal, auditing or other professional services to, or had any affiliation with, the Firm during the two years prior to the date of the Notice of Acceptance of this AWC.
 - c. Cooperate with the Independent Consultant in all respects, including providing the Independent Consultant with access to the Firm's files, books, records, and personnel, as reasonably requested for the above-mentioned reviews. The Firm shall require the Independent Consultant to report to FINRA on its activities as FINRA may request and shall place no

restrictions on the Independent Consultant's communications with FINRA. Further, the Firm upon request, shall make available to FINRA any and all communications between the Independent Consultant and the Firm and documents reviewed by the Independent Consultant in connection with this review.

- d. Once retained, the Firm shall not terminate the relationship with the Independent Consultant without FINRA's written approval; the Firm 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;
- e. At the conclusion of the Independent Consultant's review, which shall be no more than 180 days after the date of the Notice of Acceptance of this AWC, the Firm shall require the Independent Consultant to submit a written report ("the Initial Report") to it and FINRA. The Initial Report shall, at a minimum, address: (i) the adequacy of the Firm's policies, systems and procedures (written and otherwise) and training relating to compliance with FINRA Rule 3310 and the requirements of the Bank Secrecy Act, 31 U.S.C. § 5311, et. seq., and the regulations promulgated thereunder, related to monitoring for, identifying, investigating, and responding to red flags of suspicious transactions with respect to low-priced securities; (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 with respect to low-priced securities; and
- f. Within 60 days after delivery of the Initial Report, the Firm shall adopt and implement the recommendations of the Independent Consultant or, if it considers a recommendation to be, in whole or in part, 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 ("Firm's Proposed Alternative Procedures").
- g. Within 30 days of receipt of any the Firm's Proposed Alternative Procedures, the Firm shall require the Independent Consultant to: (i) reasonably evaluate the alternative procedure(s) and determine whether it will achieve the same objective as the Independent Consultant's original recommendation; and (ii) provide the Firm and FINRA with a written decision reflecting its determination ("Written Report Regarding Alternative Procedures"). In the event the Independent Consultant and the Firm are unable to agree, the Firm must abide by the Independent

Consultant's ultimate determination with respect to any proposed alternative procedure and must adopt and implement all recommendations deemed appropriate by the Independent Consultant.

- h. Within 30 days after the issuance of the later of the Independent Consultant's Initial Written Report or Written Report Regarding Alternative Procedures (if any), the Firm shall provide the Independent Consultant and FINRA staff with a written Implementation Report, certified by an officer of the Firm, attesting to, containing documentation of, and setting forth the details of the Firm's implementation of the Independent Consultant's recommendations. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. FINRA may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence.
- i. Require the Independent Consultant to enter into a written agreement that provides that for the duration of this engagement and for a period of two years from the completion of this engagement, the Independent Consultant shall not enter into any other employment, consultant, attorney-client, auditing or other professional relationship with Respondent, 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 or of which it is a member, and any person engaged to assist the Independent Consultant in the performance of its duties pursuant to this AWC, shall not, without prior written consent of FINRA, enter into any employment, consultant, attorney-client, auditing or other professional relationship with Respondent or any of Respondent's 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.
- j. Upon written request showing good cause, FINRA may extend any of the procedural dates set forth above.

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

Respondent specifically and voluntarily waives any right to claim an inability to pay, now or at any time hereafter, the monetary sanction 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 Respondent;
- 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 action brought by FINRA or any other regulator against Respondent;
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 the Respondent Firm, 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; that 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 to submit it.

Hilltop Securities, Inc., Respondent

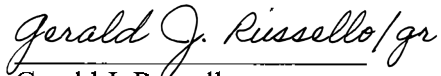
June 15, 2020
Date

By: Mike Cogliano

Print Name: Mike Cogliano

Title: CCO

Reviewed by:



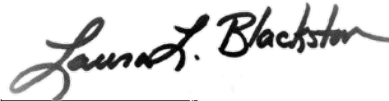
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Accepted by FINRA:

July 28, 2020

Date

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



Laura Leigh Blackston, Senior Counsel
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