

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2019063187001**

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

RE: D.H. Hill Securities, LLLP (Respondent)
Member Firm
CRD No. 41528

Pursuant to FINRA Rule 9216, Respondent D.H. Hill Securities, LLLP (Respondent or D.H. Hill) 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 in this AWC.

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

D.H. Hill is primarily a retail brokerage firm, and is headquartered in Kingwood, Texas. It has been a FINRA member since October 1996. It has approximately 45 registered representatives in 15 branches.¹

OVERVIEW

Between August 2015 and December 2019, D.H. Hill sold eight private placement offerings claiming exemption from registration under Rule 506(b) of Regulation D, but without having established pre-existing, substantive relationships with the offerees prior to participating in those offerings. As a result, each of those sales constituted an unregistered distribution of securities in contravention of Section 5 of the Securities Act of 1933, and, thereby, violated FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

Under the Securities Act of 1933 (the Act), any offer or sale of a security must either be registered with the SEC or qualify for an exemption. Regulation D under the Act

¹ For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

provides a number of exemptions, one of which is Rule 506(b). Under that rule, an issuer obtains a “safe harbor” under Section 4(a)(2) by, among other things, selling to no more than 35 non-accredited investors and not using “general solicitation” or advertising to market its securities. Rule 502(c) generally sets forth the forms of prohibited general solicitation or advertising activities.

The SEC has issued guidance that a broker-dealer, acting on behalf of an issuer, can demonstrate the absence of general solicitation under Rule 502(c) of Regulation D if it demonstrates that it has established a pre-existing, substantive relationship with a prospective investor. For example, a broker-dealer could establish a pre-existing, substantive relationship with a prospective investor through a previous investment in securities offered through the broker-dealer or through submission and approval of an investor qualification questionnaire. The SEC has also issued guidance that “[a] preexisting relationship is one . . . that was established through . . . a registered broker-dealer . . . prior to the registered broker-dealer[’s] . . . participation in the offering.”²

Between August 2015 and December 2019, D.H. Hill sold interests in eight private placement offerings, each of which claimed exemption from registration pursuant to Rule 506(b) of Regulation D. During this period, D.H. Hill solicited 16 separate individuals to invest approximately \$1.1 million in those offerings. However, D.H. Hill began participating in each offering well before the firm created a substantive relationship with any of these 16 individuals. The firm participated in those offerings by engaging in steps necessary to the distribution of securities, including but not limited to: conducting due diligence on the offerings; communicating with prospective investors; selling interests in the offerings; and executing placement agent agreements.

For example, D.H. Hill began participating in a private offering of securities on behalf of Issuer No. 1 in 2015. The firm executed the placement agent agreement for that offering on April 29, 2015, and first began selling interests in the offering to investors on February 25, 2016. On or before these dates, the firm did not have a substantive relationship with Investor A. D.H. Hill subsequently established such a relationship with and sold Investor A interests in Issuer No. 1’s offering on July 12, 2017, but the firm’s substantive relationship did not pre-date D.H. Hill’s participation in that offering.

Similarly, D.H. Hill began participating in a private offering of securities on behalf of Issuer No. 2 in 2017. The firm executed the placement agent agreement for that offering on May 19, 2017 and first began selling interests in Issuer No. 2’s offering on April 10, 2018. On or before this date, the firm did not have a substantive relationship with Investor B. D.H. Hill subsequently established such a relationship with and sold Investor B interests in Issuer No. 2’s offering on May 28, 2019, but the firm’s substantive relationship did not pre-date D.H. Hill’s participation in that offering.

D.H. Hill solicited and sold the securities of six other private placement offerings to fourteen other investors in the manner similar to those described above. On each

² See SEC Compliance and Disclosure Interpretations, Question 256.29, dated August 6, 2015.

occasion, D.H. Hill failed to have a substantive relationship with each investor prior to the firm's participation in those offerings.

Because D.H. Hill began participating in each of the eight private placement offerings prior to establishing a substantive relationship with Investor A, Investor B, and the fourteen other individuals noted above, the eventual solicitations and resulting sales of those offerings each constituted a general solicitation and resulted in the unregistered distribution of securities.

Therefore, D.H. Hill violated FINRA Rule 2010 by acting in contravention of Section 5 of the Act.

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

- a censure
- a \$25,000 fine

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 it proposes to pay the fine imposed.

Respondent specifically and voluntarily waives any right to claim an inability to pay, now or at any time after the execution of this AWC, the monetary sanction imposed in this matter.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

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 prejudice 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 its acceptance or rejection.

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 its subject matter 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 testimonial obligations or 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.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's 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 Respondent 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 in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

July 14, 2021

Date



D.H. Hill Securities, LLLP
Respondent

Print Name: Dan H. Hill

Title: President of the G.P.

Accepted by FINRA:

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

July 22, 2021

Date



Janine Arno
Senior Counsel
FINRA
Department of Enforcement
5200 Town Center Circle, Tower 1, Suite 200
Boca Raton, FL 33486

D.H. Hill Securities, LLLP
1543 Green Oak Place
Kingwood, TX 77339

July 14, 2021

Janine D. Arno, Senior Counsel

Department of Enforcement
FINRA Tower 5200 Town Center Circle, Suite 200
Boca Raton, FL 33486

RE: Corrective Action Statement

While DH Hill did not have a substantive, pre-existing relationship with the 16 subject investors prior to engaging in the noted offerings, it did have a substantive relationship with such investors at the time the 8 offerings were shown to such investors. Our firm uses a financial planning and portfolio review process in working with our clients to ensure our recommendations are in line with the client's objectives and concerns.

We have made some changes within our new business processing procedures that adds an additional step for any private offering business submitted. We now search the Selling Agreement date of any private placement offering and compare to the relationship of the investor date to ensure the investor relationship was established prior to the Selling Agreement date of the private placement.

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

Sincerely,

Dan H Hill

Dan H. Hill
President of the G.P.