

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2021069383201**

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

RE: Home Financial Services, Inc. (Respondent)
Member Firm
CRD No. 14716

Pursuant to FINRA Rule 9216, Respondent Home Financial Services, Inc. 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 accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

Home Financial has been a FINRA member firm since January 1985. The firm is located in Knoxville, Tennessee. Home Financial's business includes trading of municipal and U.S. government securities.¹

OVERVIEW

Between May 2018 and July 2021, Home Financial failed to include information required on customer confirmations for municipal securities transactions, specifically the time of execution and information related to mark-ups or mark-downs, in violation of Municipal Securities Rulemaking Board (MSRB) Rule G-15. Additionally, between August 2016 and June 2020, Home Financial incorrectly applied the non-transaction-based compensation (NTBC) special condition indicator to reports of municipal securities transactions to the MSRB's Real-time Transaction Reporting System (RTRS), in violation of MSRB Rule G-14.

Between at least August 2016 and January 2023, the firm failed to establish and maintain a supervisory system, and establish, maintain, and enforce written supervisory procedures

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

(WSPs), reasonably designed to achieve compliance with certain requirements of MSRB Rules G-15 and G-14, in violation of MSRB Rule G-27.

FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA’s 2021 cycle examination of Home Financial.

Home Financial failed to disclose the execution time and failed to properly disclose mark-ups and mark-downs on customer confirmations for municipal securities transactions.

MSRB Rule G-15(a)(i)(A)(2)(b) requires that “[a]t or before the completion of a transaction in municipal securities with or for the account of a customer, each broker, dealer or municipal securities dealer . . . give or send to the customer a written confirmation” that includes “[t]he time of execution,” except for transactions for institutional accounts or in municipal fund securities.

MSRB Rule G-15(a)(i)(F)(1) requires, with certain exceptions not relevant here, that retail customer confirmations also “include the dealer’s mark-up or mark-down for the transaction, to be calculated in compliance with Rule G-30, Supplementary Material .06 and expressed as a total dollar amount and as a percentage of the prevailing market price if: (a) the broker, dealer or municipal securities dealer (‘dealer’) is effecting a transaction in a principal capacity with a non-institutional customer, and (b) the broker, dealer or municipal securities dealer purchased (sold) the security in one or more offsetting transactions in an aggregate trading size meeting or exceeding the size of such sale to (purchase from) the non-institutional customer on the same trading day as the non-institutional customer transaction.”

Between May 2018² and July 2021, Home Financial reported the firm’s mark-up or mark-down only as a percentage of PMP on 108 customer confirmations. In addition, the firm did not disclose mark-downs in any manner on 372 customer confirmations. The firm also did not disclose execution time on 2,183 retail customer confirmations.

Therefore, Home Financial violated MSRB Rule G-15.

Home Financial incorrectly applied the NTBC special condition indicator to reports of municipal securities transactions.

MSRB Rule G-14(b)(i) requires that municipal securities dealers report transaction information to RTRS in the manner prescribed by the Rule G-14 RTRS Procedures and the RTRS User Manual, which, together with the Specifications for Real-Time Reporting

² Effective May 14, 2018, the MSRB amended Rule G-15 to “require dealers to disclose additional information on retail customer confirmations for a specified class of principal transactions, including the dealer’s mark-up or mark-down as determined from the prevailing market price (PMP) of the security” and to “disclose on retail customer confirmations the time of execution.” See MSRB Notice 2018-05 (Mar. 2018).

of Municipal Securities Transactions, state that the NTBC special condition indicator is to be applied to reports of customer trades that do not include a mark-up, mark-down, or commission.

Between August 2016 and June 2020, the firm incorrectly applied the NTBC special condition indicator to 424 reports to the RTRS of municipal securities transactions that included a mark-up, mark-down, or commission. This occurred because the vendor the firm retained to provide back office software experienced a coding error that caused the firm to automatically apply the NTBC indicator to certain transactions.

Therefore, Home Financial violated MSRB Rule G-14.

Home Financial failed to supervise reasonably for compliance with certain requirements of MSRB Rules G-15 and G-14.

MSRB Rule G-27(a) requires each broker, dealer, and municipal securities dealer to supervise the conduct of its municipal securities activities to ensure compliance with MSRB rules and federal securities laws. MSRB Rules G-27(b) and G-27(c) require each firm to establish and maintain a system, and to establish, maintain, and enforce WSPs, to supervise its municipal securities activities in a manner reasonably designed to achieve compliance with MSRB rules and the federal securities laws.

From May 14, 2018 until January 18, 2019, Home Financial did not include in its WSPs any requirement for disclosure of its mark-up or mark-down, in compliance with MSRB Rule G-15(a)(i)(F)(1). During January 2019, the firm revised its WSPs to require the disclosure of the amount of mark-ups, mark-downs, and execution times on retail customer confirmations. However, the firm's supervisory reviews of customer confirmations between May 2018 and May 2021 were unreasonable because they did not include confirming that mark-downs (as either a total dollar amount or a percentage of PMP) and the time of execution were disclosed on the confirmations.

From at least August 2016 through June 2020, the firm did not conduct any review for the correct application of special condition indicators reported to RTRS and lacked WSPs providing for such review until January 2023.

Therefore, Home Financial violated MSRB Rule G-27.

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

- a censure; and
- a \$50,000 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 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 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 right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.

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.

10/19/2023
Date


Home Financial Services, Inc.
Respondent

Print Name: Mitchell Kinser

Title: President

Accepted by FINRA:

November 9, 2023
Date

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


Robert Lawner
Principal Counsel
FINRA
Department of Enforcement
300 South Grand Avenue, Suite 1600
Los Angeles, California 90071

Corrective Action Statement

This Corrective Action Statement is submitted by Home Financial Services, Inc. "Respondent"). It does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA, or its staff.

MSRB Rule G-15 Corrective Action:

Customer Confirmations-Municipal Securities Transactions-Required Information

*** Time of Execution**

Corrected 6/14/2021 (promptly after notification of issue by examination staff)

***Markdowns as a percentage of PMP**

Corrected 5/27/21 (promptly after notification of issue by examination staff). Additionally, the firm proactively identified affected customers and sent letters on 9/9/2021 detailing and itemizing the previously omitted required information.

***Total Dollar Amount of Markdowns and Markups**

Corrected 7/26/2021 (Promptly after notification of issue by examination staff)

MSRB Rule G-14 Corrective Action:

On or around 6/13/2020, Respondent's software provider implemented a fix to correct the automatic and incorrect application of the NTBC special condition indicator code based on chronological entry of trades in reports to the MSRB RTRS. On or around 6/30/2020, Respondent addressed certain other trades with the incorrect indicator code brought to its attention by FINRA.

MSRB Rule G-27 Corrective Action:

Respondent has amended its written supervisory procedures in response to FINRA's findings and has established a monthly compliance meeting with key management personnel in order to review and analyze industry-related rule changes and implement warranted policy and procedural changes in order to establish, maintain and enforce written supervisory procedures as MSRB requirements are amended.

Home Financial Services, Inc.
507 Market Street
Knoxville, TN 37902