

CBOE BZX EXCHANGE, INC.
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2016050198201

TO: Cboe BZX Exchange, Inc.
c/o Department of Enforcement
Financial Industry Regulatory Authority ("FINRA")

RE: Hilltop Securities Inc., Respondent
Broker-Dealer
CRD No. 6220

Pursuant to Rule 8.3 of the Rules of Cboe BZX Exchange, Inc. ("BZX"), Hilltop Securities Inc. (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, BZX will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The firm 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 BZX, or to which BZX 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 BZX:

BACKGROUND

Hilltop became a member of BZX on October 23, 2008, and its registration remains in effect. The firm, which is based in Dallas, Texas, performs traditional broker-dealer services and clearing for introducing firms. The firm does not have a relevant disciplinary history.

SUMMARY

In connection with Matter No. 20160501982, Options Regulation staff in FINRA's Department of Market Regulation, on behalf of BZX, commenced a review to determine the accuracy of the firm's reporting of options positions to the Large Option Position Reporting system ("LOPR") during the period between August 2015 and March 2017. Thereafter, the period of review was extended to August 2018 (the "Review Period").

LOPR data is used extensively by self-regulatory organizations to identify holders of large options positions who may be, among other things, trying to manipulate the market or otherwise violate securities rules and regulations. The accuracy of LOPR data is

essential for the analysis of potential violations of rules related to, among others, insider trading, position limits, exercise limits, front-running, capping and pegging, mini-manipulation, and marking-the-close.

During the Review Period, the firm deleted approximately 12,834 reportable expiring positions to LOPR, and failed to resubmit rejected records, or resubmitted rejected records with incorrect effective dates, in approximately 75 instances.¹ In addition, during the Review Period and through January 2019, the firm failed to establish and maintain a reasonable supervisory system and written supervisory procedures (“WSPs”) to ensure compliance with its LOPR reporting obligations.

FACTS AND VIOLATIVE CONDUCT

Relevant Rules

BZX Rule 18.10(a) requires that Options Members report to BZX information pertaining to customers who, acting alone, or in concert with others, on the previous business day maintained aggregate long or short positions on the same side of the market of 200 or more contracts of any single class of option contracts.

BZX Rule 5.1 requires that Members establish, maintain, and enforce written procedures that enable them to supervise properly the activities of associated persons, and to assure compliance with applicable securities laws, rules, regulations and statements of policy promulgated thereunder, with the rules of the designated self-regulatory organization, and with BZX rules.

BZX Rule 3.1 states a Member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade.

Violative Conduct

1. During the Review Period, due to a systemic issue, the firm failed to report approximately 12,834 reportable positions in expiring options, mistakenly deleting the positions in its LOPR submissions that were set to expire on the following day, or failing to report positions that the firm had added or modified on the expiration date.
2. Although the firm had initially attempted to rectify the systemic issue related to expiring options positions in March 2017, it did not fully remediate this deficiency until August 2018. Its failure to completely remediate the deficiency resulted in its failure to report approximately 252 positions to LOPR that it had added or modified on the expiration date.

¹¹ An “instance” is a single failure to report a given options position or a single inaccurate report of an options position. The number of instances is determined by multiplying a given reportable position by the number of trade dates the positions was not reported or was reported inaccurately.

3. During the Review Period, a separate systemic issue resulted in the firm's failure to resubmit rejected records to LOPR, or its resubmission of rejected records to LOPR with incorrect effective dates.
4. In five other instances during the Review Period, the firm failed to resubmit rejected records. For four instances, the firm's resubmission was unsuccessful because the employee tasked with resubmitting rejected records was on vacation. For the fifth instance, the firm's resubmission was unsuccessful because the position at issue had already closed.
5. The conduct described in paragraphs I.A(1) – I.A(4) constitutes separate and distinct violations of BZX Rule 18.10(a).
6. The firm did not have reasonable WSPs to ensure the proper reporting of options positions to the LOPR. Specifically, during the period between August 2015 and June 2018, the firm's WSPs failed to reference the specific steps to be taken by the firm when reviewing its LOPR submissions or how its review of LOPR submissions is documented. Additionally, the WSPs did not reference any review for accounts to be reported to LOPR that are potentially acting in-concert.
7. Additionally, during the Review Period and through January 2019, the firm's WSPs failed to reference the frequency with which it conducts a review for accounts that are potentially acting in-concert.
8. The conduct described in paragraphs I.A(6) – I.A(7) constitutes separate and distinct violations of BZX Rules 5.1 and 3.1.

B. The firm also consents to the imposition of the following sanctions:

1. A censure; and
2. A fine in the amount of \$37,500.

The firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. It has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

The firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

The sanctions imposed herein shall be effective on a date set by BZX.

II.

WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under BZX Rules:

- A. To have a Statement of Charges issued specifying the allegations against the firm;
- B. To be notified of the Statement of Charges 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 Appeals Committee of the BZX's Board of Directors and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the firm specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Regulatory Officer ("CRO"), in connection with the CRO'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.

The firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of BZX Rule 8.16, 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

The firm 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 CRO, pursuant to BZX Rule 8.3;
- 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 BZX or any other regulator against the firm;
 - 2. this AWC will be published on a website maintained by BZX in accordance with BZX Rule 8.18. In addition, this AWC will be made

available through FINRA's public disclosure program in response to public inquiries about the firm's disciplinary record; and

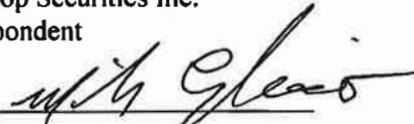
3. The firm may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. The firm may not take any position in any proceeding brought by or on behalf of BZX, or to which BZX 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 BZX 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 BZX, nor does it reflect the views of BZX or its staff.

The undersigned, on behalf of the 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 the firm to submit it.

3/8/2019
Date

Hilltop Securities Inc.
Respondent

By: 
Name: Mike Cogliano
Title: CCO

Reviewed by:

Counsel for Respondent
Firm Name
Address
City/State/Zip
Phone Number

3/13/2019
Date



Greg Hoogasian
Senior Vice President & Chief Regulatory Officer
Cboe BZX Exchange, Inc.

ELECTION OF PAYMENT FORM

The firm intends to pay the fine proposed in the attached Letter of Acceptance, Waiver and Consent by the following method (check one):

- A firm check or bank check for the full amount; or
- Wire transfer.


Respectfully submitted,

Respondent

Hilltop Securities Inc.

3/8/2019

Date

By: 
Name: Mike Cogliano
Title: CCO