

**ADMINISTRATIVE PROCEEDING
BEFORE THE
SECURITIES COMMISSIONER OF SOUTH CAROLINA**

IN THE MATTER OF:

J.J.B. Hilliard, W.L. Lyons, LLC,

Respondent.

CONSENT ORDER

Matter No. 20172047

I. PRELIMINARY STATEMENT

This Consent Order is entered into between the Securities Division of the Office of the Attorney General of South Carolina (the "Division") and J.J.B. Hilliard, W.L. Lyons, LLC, CRD No. 453 ("Hilliard Lyons" or the "Respondent"), in order to resolve the Division's investigation under Matter No. 20172047 into whether certain Hilliard Lyons conduct violated the provisions of S.C. Code Ann. § 35-1-101, *et seq.*, the South Carolina Uniform Securities Act of 2005 (the "Act") and the regulations promulgated thereunder.

Without admitting or denying the findings of fact and conclusions of law set forth in this Consent Order, except as to the jurisdiction of the Securities Commissioner of South Carolina (the "Securities Commissioner") over it and the subject matter of this proceeding, which are admitted, the Respondent expressly consents to the entry of this Consent Order.

II. JURISDICTION

1. The Securities Commissioner has jurisdiction over this matter pursuant to S.C. Code Ann. § 35-1-601(a).

III. FINDINGS OF FACT

2. Hilliard Lyons is registered with the Division as a broker-dealer with a home office address of 500 West Jefferson Street, Suite 700, Louisville, Kentucky 40202.

3. Between January 2012 and October 2017, Henry Al Dean Watson, CRD No. 1326969 ("Watson"), was associated with the Respondent as an agent in its Greenville, South Carolina branch office.

4. Watson was registered with the Division as an agent and investment adviser representative.

Excessive Trading in Certain Customer Accounts

5. Beginning in late 2014 and continuing into the fall of 2015 (the "Relevant Period"), Watson began to engage in excessive trading in certain of his customers' accounts.

6. The Division's review of Watson's trading activity revealed at least three (3) accounts in which Watson engaged in excessive trading.

7. In those three (3) accounts, the Division found annualized turnover rates in excess of 4,¹ and cost-equity ratios ranging from 16% to 22% during the Relevant Period.²

8. During the Relevant Period, Hilliard Lyons' policies and procedures required that the branch manager be the registered principal responsible for the approval of all trades by representatives in that manager's branch office, referring to branch managers as the "front line" in supervision.

9. The Greenville branch manager (the "Manager") approved all of Watson's trades during the relevant period based on information provided to the Manager by Watson.

Hilliard Lyons' Response

10. During a cycle branch exam in May 2015, Hilliard Lyons' compliance department identified six (6) accounts in which Watson's trading appeared to be excessive, despite the fact that all of the trades in each of these accounts had been approved by the Manager.

11. Following this, the Manager met with Watson again to discuss his strategy. Additionally, the Respondent sent "activity letters" to the owners of the accounts in question.

12. In August 2016, the Manager, still concerned by Watson's strategy and trading activities, revoked Watson's ability to enter any trades in customer accounts.

¹ Annualized turnover rate is calculated by dividing total securities purchased for a specific period of time by the average monthly net equity of the account, and then annualizing the result. An annualized turnover rate of four (4) gives rise to the presumption of excessive trading. STUART C. GOLDBERG, PIABA'S 1991 PUBLIC INVESTOR RECOVERY GUIDE AND ARBITRATOR SOURCE BOOK TO STOCKBROKER FRAUD AND SECURITIES ARBITRATION 35, PUBLIC INVESTORS ARBITRATION BAR ASSOCIATION (1991).

² Cost-equity ratio measures the return necessary for in order for a given account to break even during a measured time period. It is calculated by totaling commissions and account fees for a given period and dividing that number by the average net equity of the account over that time period. Cost-equity ratios in excess of 20% are indicative of excessive trading. *See, e.g., Rafael Pinchas*, Exchange Act Release No. 41816, WL 680044 (Sept. 1, 1999).

Subsequent Events

13. In the Fall of 2015, one customer ("Customer 1") filed an arbitration claim against Hilliard Lyons alleging excessive trading and unsuitable recommendations by Watson. Hilliard Lyons settled this claim in June 2016 without admitting liability.

14. Following Customer 1's arbitration filing, the Financial Industry Regulatory Authority ("FINRA") began an investigation into Watson and his securities-related activities.

15. On October 12, 2016, Watson resigned from Hilliard Lyons and terminated his registrations with the Division.

16. On January 17, 2017, FINRA barred Watson from associating with any FINRA member as a result of his failure to comply with its requests for testimony.

17. On December 14, 2017, the Division issued an order barring Watson from the securities industry in South Carolina. This order became final on January 13, 2018.

Hilliard Lyons' Cooperation

18. Hilliard Lyons cooperated with the Division's investigation.

19. Beginning in February, 2017, Hilliard Lyons made substantive changes to its supervisory system, transferring primary responsibility for trade review away from branch office managers and to a central supervision unit.

20. Following discussions with the Division, Hilliard Lyons issued a letter of education to the Manager related to the detection and prevention of excessive trading and the necessity of documenting conversations with customers and registered representatives related to investment strategy recommendations.

IV. CONCLUSIONS OF LAW

21. During the Relevant Period, the Respondent failed to reasonably supervise Watson who violated the Act and the regulations promulgated thereunder by engaging in dishonest and unethical practices in violation of S.C. Code Ann. § 35-1-412(d)(13)—in particular, S.C. Code of Regulations § 13-501(B)(6)—by inducing trading in customers' accounts which was excessive in size or frequency in view of the financial resources and character of the accounts.

22. The Respondent's failure to reasonably supervise its agent who violated the Act provides the basis for the fine set forth below pursuant to S.C. Code Ann. §§ 35-1-412(c) and 35-1-412(d)(9).

23. This Consent Order is in the public interest.

V. ORDER

It is hereby ORDERED that Hilliard Lyons will, contemporaneously with the execution of this Consent Order, pay a total of Fifteen Thousand Dollars (\$15,000) to the State of South Carolina, of which Ten Thousand Dollars (\$10,000) is designated as an administrative fine and Five Thousand Dollars (\$5,000) is designated as the reimbursement of costs incurred by the Division in its investigation of the matters detailed above.

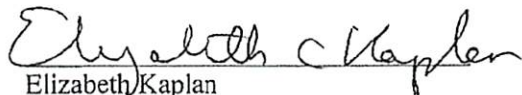
Upon execution by the Securities Commissioner, this Consent Order resolves Administrative Proceeding No. 20172047 as to the Respondent.

This Order should not be interpreted to waive any (i) criminal cause of action, (ii) private cause of action that may have accrued to investors as a result of the activities described above, or (iii) other causes of action that may result from activities of the Respondent not detailed herein or which may hereafter arise.

IT IS SO ORDERED this 30 day of August, 2018.

By: Alan Wilson
The Honorable Alan Wilson
Securities Commissioner
State of South Carolina

Respondent J.J.B. Hilliard, W.L. Lyons, LLC


Elizabeth Kaplan
Chief Compliance Officer

Date: 8/27/18

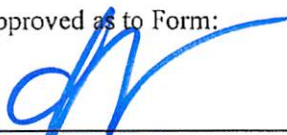
Reviewed By:


Tina Cundari
Benjamin R. Gooding
ROBINSON GRAY STEPP & LAFFITTE, LLC

Date: 8/28/18

Counsel for Respondent

Approved as to Form:


Ian P. Weschler
Assistant Attorney General
Securities Division

Date: 8/28/2018