FINANCIAL INDUSTRY REGULATORY AUTHORITY

In the Matter of the Continued Membership

of

Arlington Securities, Inc. (CRD No. 19596) Notice Pursuant to Rule 19h-1 of the Securities Exchange Act of 1934

SD-2455

Date: March 7, 2025

I. Introduction

On January 24, 2025, Arlington Securities, Inc. ("ASI" or "the Firm") submitted a Membership Continuance Application ("MC-400" or "Application") to FINRA's Credentialing, Registration, Education, and Disclosure ("CRED") Department.¹ The Application seeks to permit the Firm to continue in membership with FINRA, notwithstanding its statutory disqualification. A hearing was not held in this matter; rather, pursuant to FINRA Procedural Rule 9523(b), FINRA's Department of Member Supervision ("Member Supervision" or "Department") approves the Firm's Application and is filing this Notice pursuant to Rule 19h-1 of the Securities Exchange Act of 1934 ("Exchange Act" or "SEA").

II. The Statutorily Disqualifying Event

The Firm is subject to statutory disqualification, as that term is defined in Section 3(a)(39)(E) of the Exchange Act, as a result of its continued association with Robert Hillard ("Hillard") (CRD No. 1005606), a statutorily disqualified control person of the Firm.² Hillard is subject to disqualification pursuant to SEA §3(a)(39)(A) due to a December 11, 2024 FINRA Letter of Acceptance, Waiver, and Consent ("AWC"),³ in which he consented to a four-month suspension from associating with any FINRA member in all capacities.⁴ According to the AWC, Hillard made unsuitable securities recommendations to customers by recommending that 14 customers liquidate mutual funds in order to purchase higher-

⁴ *Id*. at p. 5.

¹ See the MC-400 and related exhibits compiled by CRED with a cover memorandum dated February 5, 2025, attached as Exhibit 1.

 $^{^2}$ See Firm CRD Excerpt – Owners, attached as Exhibit 2. Hillard has a 75% or more ownership interest in the Firm.

³ See FINRA AWC No. 2020065154601, dated December 11, 2024, attached as Exhibit 3.

cost annuities without having a reasonable basis for believing the transactions were suitable.⁵ Based on these unsuitable recommendations, Hillard violated FINRA Rules 2111, 2330(b) and 2010.⁶ In addition to this suspension, Hillard agreed to pay a \$10,000 fine and (jointly and severally with the Firm) pay \$67,026.47 plus interest in restitution to customers.⁷ Hillard's suspension began on January 6, 2025 and will continue until May 5, 2025.⁸ The Firm is seeking to continue as a FINRA member, notwithstanding Hillard's continued association as the majority owner of the Firm, during the period of the suspension.

III. Background Information About the Firm

A. Location of the Firm & Its Business Activities

ASI is based in St. Louis, Missouri and has been a FINRA member since October 1987.⁹ According to FINRA records, the Firm has 11 branch offices, inclusive of three Offices of Supervisory Jurisdiction. The Firm employs 12 registered representatives, four of which are registered principals, seven non-registered fingerprint individuals and six registered representatives/principal and Investment Adviser Representatives, three of which are registered principals.¹⁰ Apart from Hillard, the Firm employs one other statutorily disqualified person.¹¹

The Firm engages in the following business: broker or dealer retailing corporate equity securities over-the-counter; mutual fund retailer; U.S. government securities broker; broker or dealer selling variable life insurance on annuities; investment advisory services and other non-securities business as a licensed as an insurance agent.¹² The Firm is also a member of the Municipal Securities Rulemaking Board.¹³

⁷ *Id.* at p. 5. FINRA records indicate that Hillard paid the fine on December 31, 2024. *See* Hillard Form U-6, attached as Exhibit 4, at p. 5, \P 13F.

⁸ *Id.* at ¶ 13D.

⁹ See CRD Snapshot for the Firm, attached as Exhibit 5, at p. 3.

¹⁰ FINRA confirmed this through analysis of the Firm's information contained in CRD, last performed on February 25, 2025. *See* Appendix A, for the other statutorily disqualified individual.

¹¹ Christopher Brian Jones, CRD No. 2867623, located at 14323 S. Outer 40, Suite 210 North, St. Louis, Missouri, 63017. *See* Appendix A.

¹² See Excerpt from Firm CRD – Types of Business and Other Business Description, collectively attached as Exhibit 6.

¹³ Membership was confirmed by FINRA staff on February 25, 2025.

⁵ *Id.* at p. 2.

⁶ *Id.* at p. 4.

B. Examination History

In the past two years, FINRA completed one routine examination and zero non-routine examinations that resulted in a Cautionary Action Letter ("CAL") issued to the Firm.

1. FINRA Routine Examination

ASI was issued a CAL on August 23, 2024, for 14 of the exceptions noted in the Examination Report of July 31, 2024.¹⁴ FINRA found that the Firm was not in compliance with Regulation Best Interest ("Reg. BI") in relation to the recommendation of deferred variable annuities to customers or the supervision of Reg BI in relation to variable annuity sales.¹⁵ The Firm also failed to establish maintain and enforce written policies and procedures ("WSPs") designed to ensure compliance with Reg. BI and also failed to create an adequate Form CRS that complied with Commission instructions and to establish, maintain and enforce adequate written procedures reasonably designed to achieve compliance with rules concerning the filing and distribution of Form CRS.¹⁶ In addition, the Firm's Anti-Money Laundering ("AML") Compliance Program failed to conduct independent AML tests and to establish and implement policies and procedures designed to achieve compliance with the Bank Secrecy Act with regard to AML and Suspicious Activity Reports ("SARs").¹⁷ Moreover, the Firm failed to adopt a written supervisory system reasonable designed to safeguard customer information and dispose of consumer report information.¹⁸ With regard to deferred variable annuities, the Firm failed to develop and document specific training policies or programs reasonably designed to ensure that associated persons and reviewing principals complied with FINRA requirements and to determine they understood the material.¹⁹ ASI also failed to enforce procedures related to account update letters, to comply with rules related to communications with the public on its website and to establish written procedures to supervise the types of business it engages in and the activities of its associated persons.²⁰ Finally, the Firm failed to establish, maintain and enforce WSPs reasonably designed to comply with applicable recordkeeping obligations, while its WSPs also omitted required provisions relating to supervision.²¹ The

¹⁴ See ASI Disposition Letter for Examination No. 20240802286 dated August 23, 2024, Examination Report dated July 31, 2024, and ASI Response dated August 14, 2024, collectively attached as Exhibit 7, at FINRA p. 1.

¹⁵ *Id.* at FINRA pp. 5-6.

¹⁶ *Id.* at FINRA pp. 6-9.

¹⁷ *Id.* at FINRA pp. 9-11.

¹⁸ *Id.* at FINRA pp. 11-12.

¹⁹ *Id.* at FINRA pp. 12-13.

²⁰ *Id.* at FINRA pp. 13-15.

²¹ *Id.* at FINRA pp. 15-16.

Firm responded that it is updating its policies and procedures to ameliorate the issues.²²

C. <u>The Firm's Disciplinary History</u>

In the past two years, the Firm has had one formal disciplinary action. The Firm is subject to the same AWC that resulted in Hillard's suspension.²³ Specifically, ASI's supervisory system and WSPs were not reasonably designed to supervise the suitability of representatives' recommendations relating to mutual funds and variable annuities.²⁴ The Firm also failed to reasonably review the suitability of Hillard's recommendations that his customers liquidate their mutual funds in order to purchase higher-cost variable annuities.²⁵ As a result, ASI violated FINRA Rules 2330(c), 2330(d), 3110 and 2010.²⁶ The Firm agreed to a censure, a \$50,000 fine, and to be jointly and severally responsible, along with Hillard, to pay restitution to the customers of \$67,026.47, plus interest and certain undertakings, as described in the AWC.²⁷

IV. The Firm's Proposed Continued Membership with FINRA and Proposed Supervisory Plan

Considering Robert Earl Hillard's ("Hillard") suspension, which is in effect until May 5, 2025, and in accordance with FINRA Rule 9523(b), Susan Cullen ("Cullen"), the Chief Compliance Officer of Arlington Securities, Inc. ("Arlington," "ASI" or the "Firm") will implement the following plan of supervision (the "Supervisory Plan" or "Plan"),²⁸ agreed to by the Firm with Timothy Wingenbach serving as alternate supervisor:

In consenting to this Supervisory Plan, Arlington agrees to the following:

- 1. During the period of his suspension, the Firm must not allow Hillard to access or utilize any Firm systems/platforms. These systems/platforms include all electronic mail systems, social media platforms, trading platforms, and compliance/surveillance systems;
- 2. During the period of his suspension, the Firm must suspend Hillard's remote access to all Firm electronic systems/platforms;

²⁴ *Id*. at p. 4.

²⁵ *Id.* at p. 5.

²⁶ Id.

²² *Id.* at FINRA pp. 18-24.

²³ See Exhibit 3.

 $^{^{27}}$ Id. at pp 5-6. FINRA records indicate ASI paid the fine on December 31, 2024. See ASI Form U6, attached as Exhibit 8, at p. 3, ¶ 13C.

²⁸ See executed Supervisory Plan, dated March 6, 2025, attached as Exhibit 9.

- 3. During the period of his suspension, the Firm must remove Hillard's access to Firm email and not allow him to access any incoming/outgoing e-mails and not allow him to have access to any hard-copy written correspondence that is Firm-related at the Firm's address. Because the office is located in a part of Robert Hillard's home, Sue Cullen will obtain and review all hard-copy mail sent to the Firm's address;
- 4. During the period of his suspension, Cullen will monitor and address all incoming/outgoing e-mails addressed to and from Hillard's Firm email address and all hard-copy written correspondence to confirm Hillard does not have any contact with customers or engage in securities business in violation of his suspension;
- 5. During the period of his suspension, the Firm is prohibited from using Hillard as its executive representative as that term is defined under FINRA By-Laws, Article IV, Sec. 3;
- 6. During the period of his suspension, the Firm must remove references of, or to, Hillard from its website, social media platforms, and communications;
- 7. During the period of his suspension, the Firm will prohibit Hillard from the following activities:
 - (a) being a signatory on the Firm's bank accounts; the Firm's annual corporate documents, or any other organizational documents;
 - (b) from using the Firm's debit and/or credit cards;
 - (c) from acting in any capacity, either formally or informally; and
 - (d) from attending any corporate meetings.
- 8. During the period of his suspension, the Firm must not permit Hillard to access the Firm's offices, records, employees, or its customers or enter the Firm's office space that is located in his personal residence;
- 9. During the period of his suspension, the Firm must not allow Hillard to conduct or supervise any securities or investment banking business at the Firm, either formally or informally;
- 10. During the period of his suspension, the Firm must not allow Hillard to access the Firm's books and records;
- 11. Once Hillard's suspension has elapsed, the Firm will certify, in writing, that Hillard's activities were monitored appropriately and in accordance with this Supervisory Plan. Copies of these certifications must be sent to FINRA's Statutory Disqualification Group at <u>SDMailbox@finra.org</u> and be maintained and kept segregated for ease of review during any FINRA examination.
- 12. The Firm must obtain prior approval from Member Regulation to change any provisions of this plan. The Firm must submit any proposed changes or other

requested information under this Plan to FINRA's Statutory Disqualification Group at <u>SDMailbox@finra.org</u>.

13. The Plan shall take effect on the date the SEC issues its Letter of Acknowledgement ("LOA") in this matter. The Plan shall be in effect for one calendar year from the date of the LOA, after which time the Plan shall terminate.

V. Discussion

After carefully reviewing the records in this matter, FINRA approves the Firm's request to continue its membership with FINRA, subject to the terms and conditions set forth herein. In evaluating applications like these, FINRA assesses whether the statutorily disqualified firm seeking to continue its membership with FINRA has demonstrated that its continued membership is consistent with the public interest and does not create an unreasonable risk of harm to the market or investors. *See Frank Kufrovich*, 55 SEC. 616, 624 (2002) (holding that FINRA "may deny an application by a firm for association with a statutorily-disqualified individual if it determines that employment under the proposed plan would not be consistent with the public interest and the protection of investors"). Typically, factors that bear on our assessment include the nature and gravity of the statutorily disqualifying misconduct, the time elapsed since its occurrence, the restrictions imposed, and whether there has been any intervening misconduct.

As of the date of this Notice, FINRA has determined that ASI's continued membership is consistent with the public interest and does not create an unreasonable risk of harm. The Firm is subject to disqualification solely based on its majority owner's current suspension, which will elapse on May 5, 2025. The Department recognizes the gravity of Hillard's misconduct underlying his current suspension. However, Hillard's disqualification prohibits him from being involved in any of the Firm's business lines and its operations, until his suspension has elapsed. This, along with the stringent plan of supervision that prohibits Hillard's involvement in any of the Firm's business activities, systems and financial records and cuts off his physical access to the Firm's premises (including the ASI office space in his personal residence), its employees and customers, mitigates any potential threat to the investing public. FINRA intends to utilize its examination and surveillance processes to monitor the Firm's continued compliance with the Supervisory Plan in accordance with Exchange Act Rule 19h-1 and FINRA Rule 9523. FINRA finds that these facts, in addition to a review of the Firm's continued membership in FINRA.

Thus, FINRA is satisfied, based on the Firm's representations made pursuant to the Supervisory Plan that the Firm's continued membership in FINRA does not create an unreasonable risk of harm to the market or investors. Accordingly, FINRA approves ASI's Application to continue its membership in FINRA.

FINRA states that, to its knowledge ASI meets all qualification requirements for its proposed continued membership, the Firm is not a member of any other self-regulatory organization.

In conformity with the provisions of Exchange Act Rule 19h-1, the continued membership of the Firm will become effective within 30 days of the receipt of this notice by the Commission, unless otherwise notified by the Commission.

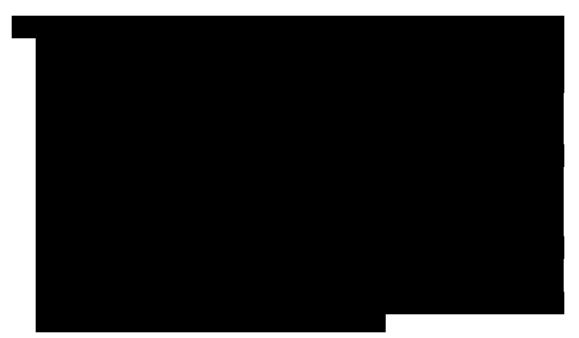
On Behalf of FINRA,

Jermin Rue hitchell

Jennifer Piorko Mitchell VP, Corporate Governance & Deputy Corporate Secretary

Appendix A

Statutorily Disqualified Individual Associated with Arlington Securities, Inc.



Exhibits SD-2455

- 1. MC-400 and related exhibits compiled by CRED with a cover memorandum dated February 5, 2025.
- 2. Firm CRD Excerpt Owners CRD Snapshot for the Firm.
- 3. FINRA AWC No. 2020065154601, dated December 11, 2024.
- 4. Hillard, Form U-6
- 5. CRD Snapshot for Arlington Securities, Inc.
- 6. Excerpt from Firm CRD Types of Business and Other Business Description.
- ASI Disposition Letter for Examination No. 20240802286 dated August 23, 2024, Examination Report dated July 31, 2024, and ASI Response dated August 14, 2024
- 8. ASI, Form U-6.
- 9. Executed Supervisory Plan, dated March 6, 2025