

TRAVIS J. ILES
SECURITIES COMMISSIONER

CLINTON EDGAR
DEPUTY SECURITIES COMMISSIONER

Mail: P.O. BOX 13167
AUSTIN, TEXAS 78711-3167

Phone: (512) 305-8300
Facsimile: (512) 305-8310



Texas State Securities Board

208 E. 10th Street, 5th Floor
Austin, Texas 78701-2407
www.ssb.texas.gov

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MEMBER

MIGUEL ROMANO, JR.
MEMBER

IN THE MATTER OF THE DEALER AND
INVESTMENT ADVISER
REGISTRATION OF BRAZOS
SECURITIES, INC.

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Order No. IC18-CAF-04

TO: Billy F. Sims, President
Brazos Securities, Inc. (CRD No. 21624)
12400 Coit Road, Suite 1040
Dallas, Texas 75251

DISCIPLINARY ORDER

Be it remembered that Brazos Securities, Inc. ("Respondent") appeared before the Securities Commissioner of the State of Texas ("Securities Commissioner") and consented to the entry of this order ("Order") and the Findings of Fact and the Conclusions of Law contained herein.

FINDINGS OF FACT

1. Respondent has waived (a) Respondent's right to notice and hearing in this matter; (b) Respondent's right to appear and present evidence in this matter; (c) Respondent's right to appeal this Order; and (d) all other procedural rights granted to the Respondent by The Securities Act, Tex. Rev. Civ. Stat. Ann. arts. 581-1 to 581-45 (West 2010 & Supp. 2017) ("Texas Securities Act"), and the Administrative Procedure Act, Tex. Gov't Code Ann. §§ 2001.001 to 2001.902 (West 2008 & Supp. 2017) ("Administrative Procedure Act").
2. On March 7, 1988, Respondent Brazos registered with the Securities Commissioner as a dealer. This registration is currently effective.
3. On June 19, 2006, Respondent Brazos registered with the Securities Commissioner as an investment adviser. This registration is currently effective.

4. On February 27, 2017, the Staff of the Texas State Securities Board ("Staff") conducted an inspection of Respondent ("2017 Inspection").
5. As a dually registered entity, Respondent sells securities to clients in brokerage accounts established with Respondent and receives transaction-based compensation for such sales, and Respondent renders investment advisory services to clients by trading client assets in fee-based accounts, for which Respondent receives a percentage of the total value of the assets in a client's accounts.
6. Accordingly, Respondent employs individuals who act as agents and individuals who act as investment adviser representatives.
7. One individual formerly associated with Respondent was registered as an agent of Respondent since 2001. From 2001 to 2013 (the "Relevant Period"), this agent generally recommended to his clients that they purchase shares of preferred stock and mutual funds, for which Respondent and the agent received transaction-based compensation.
8. During the Relevant Period, Respondent and the aforementioned agent received transaction-based compensation. This included commissions for equity transactions; a reallowance of about one and one-half percent (1.5%) of the sales of preferred stock shares purchased through a syndicate offering; and/or a 12b-1 fee¹ of one percent (1%) in connection with the sales of mutual fund shares.
9. In 2013, the agent also registered with the Securities Commissioner as an investment adviser representative of Respondent (hereinafter referred to as the "Representative").
10. In or around March 2014, the Representative began recommending that his clients sign an investment management agreement with Respondent and convert their accounts from a non-discretionary, brokerage account to a discretionary, investment advisory account.
11. The clients were thereafter assessed an investment management fee based on the amount of the assets in their accounts.
12. With respect to the majority of clients, Respondent and the Representative set the rate of the annual investment management fee to 0.5% in order to account for other compensation Respondent and the Representative would continue to receive related to the clients' investments².

¹ A 12b-1 fee is a recurring annual fee on a mutual fund and is generally between 0.25 and 1% (the maximum allowed) of a fund's net assets.

² This compensation included the aforementioned syndicate reallowances for the purchases of the preferred stock shares and 12b-1 fees for the mutual fund shares.

13. However, there was no reduction of the investment management fee rate for one (1) client ("Client ES"), for whom Respondent and the Representative were to earn a tiered annual fee of ranging from one percent (1%) of assets under management to two percent (2%) of assets under management.
14. Notably, from 2010 to 2013, Client ES paid, on average, eight-thousand six-hundred thirty-two dollars and twenty-six cents (\$8,632.26) per year in fees in connection to Client ES' brokerage account with Respondent.
15. After the account of Client ES was converted from a brokerage account to an investment advisory account, from 2014 to 2017, Client ES paid, on average, sixteen-thousand, seven-hundred seventy-four dollars and sixty-two cents a year (\$16,774.62) in fees in connection with Client ES' advisory account with Respondent despite no change in the trading strategy or products recommended to Client ES.
16. At the time of the transfer of accounts, Respondent had no written supervisory procedures to address the conversion of client accounts from brokerage accounts to investment advisory accounts.
17. In fact, Respondent had not established any written supervisory procedures relating to its activities as an investment adviser.
18. Further, Respondent had not otherwise implemented a system that would have allowed Respondent to supervise the conversion of a client's account from a brokerage account to an investment advisory account for suitability or determine the reasonableness of the investment management fee relative to the advisory services rendered by Respondent and the additional compensation Respondent received in its capacity as a registered dealer.

CONCLUSIONS OF LAW

1. Respondent's failure to establish a system to supervise the conversion of accounts from commission-based accounts to fee-based accounts was a failure to establish a system to supervise the activities of its agents that is reasonably designed to achieve compliance with the Texas Securities Act, the Board Rules, and all applicable securities law and regulations and is a violation of §115.10(a) of the Board Rules.
2. Respondent's failure to establish written policies and procedures relating to the conversion of accounts from commission-based accounts to fee-based accounts was a failure to establish written supervisory procedures reasonably designed to achieve compliance with the Texas Securities Act, the Board Rules, and all applicable securities law and regulations and is a violation of §115.10(b) of the Board Rules.

3. Respondent's failure to establish written policies and procedures relating to Respondent's rendering services as an investment adviser was a failure to establish written supervisory procedures reasonably designed to achieve compliance with the Texas Securities Act, the Board Rules, and all applicable securities law and regulations and is a violation of §116.10 of the Board Rules.
4. Pursuant to Section 14.A(6), the aforementioned violation of the Board Rules constitutes a basis for the issuance of an order reprimanding Respondent.
5. Pursuant to Section 23-1 of the Texas Securities Act, the aforementioned violations of the Board Rules constitute bases for the assessment of an administrative fine against the Respondent.

UNDERTAKING

1. Respondent undertakes and agrees that that within ninety (90) days from the date this Order is signed by the Securities Commissioner, Respondent will pay an amount of thirty-two thousand five-hundred sixty-nine dollars and forty-four cents (\$32,569.44) to Client ES.
2. Respondent further undertakes and agrees that within one-hundred-five (105) days from the date this Order is signed by the Securities Commissioner, Respondent will provide the legal counsel for the Inspections & Compliance Division of the Texas State Securities Board with evidence that Respondent has made the repayment.

ORDER

1. It is further ORDERED that Brazos Securities, Inc. is hereby REPRIMANDED.
2. It is further ORDERED that Brazos Securities, Inc. COMPLY with the terms of the Undertaking contained herein.
3. It is further ORDERED that Brazos Securities, Inc. shall pay an ADMINISTRATIVE FINE in the amount of twenty thousand dollars (\$20,000) to the general fund of the State of Texas, within ten days (10) days of the entry of this Order.

SIGNED AND ENTERED BY THE SECURITIES COMMISSIONER this 5th
day of November, 2018.



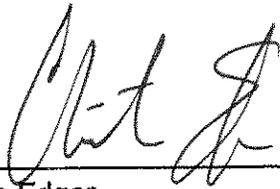
TRAVIS J. ILES
Securities Commissioner

Respondent:



Brazos Securities, Inc.
By: Billy F. Sims, President

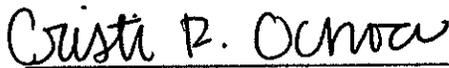
Approved as to Form:



Clinton Edgar
Deputy Securities Commissioner



David Dyer
Scheef & Stone, LLP
Attorney for Respondent



Cristi Ramón Ochoa
Attorney, Inspections and Compliance Division

ACKNOWLEDGMENT

On this 1ST day of NOVEMBER, 2018, Brazos Securities, Inc. ("Respondent"), by and through Billy F. Sims, its President, appeared before me, executed the foregoing Order, and acknowledged that:

1. Billy F. Sims is duly authorized to enter into the foregoing Order on behalf of Respondent;
2. Billy F. Sims has read the foregoing Order;
3. Respondent has been fully advised of its rights under the Texas Securities Act and the Administrative Procedure Act;
4. Respondent knowingly and voluntarily consents to the entry of the foregoing Order and the Findings of Fact and Conclusions of Law contained therein; and
5. Respondent, by consenting to the entry of the foregoing Order, has knowingly and voluntarily waived its rights as set forth therein.


Notary Public in and for
The State of TEXAS
My commission expires on 1/23/2021

[affix notary seal here]

