

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2015046351701**

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

RE: Patrick M. Hudson, Respondent
CRD No. 2082798

Pursuant to FINRA Rule 9216 of FINRA’s Code of Procedure, Patrick M. Hudson (“Respondent”) 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 me alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. I hereby accept and consent, without admitting or denying the findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of FINRA, or to which FINRA 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 FINRA:

BACKGROUND

Respondent Patrick M. Hudson entered the securities industry in September 1990, when he became associated with a FINRA member firm. In September 1990, he received his Series 7 (General Securities Representative), Series 63 (Uniform Securities Agent Law) and Series 65 (Uniform Investment Advisor) licenses. Hudson became associated with Tucker Anthony Incorporated in June 1999. That firm was acquired by RBC Capital Markets, LLC (“RBC” or the “Firm”) in March 2002. Hudson then maintained these licenses through RBC.

On July 29, 2015, RBC filed a Uniform Termination Notice for Securities Industry Registration (“Form U5”), disclosing it discharged Hudson for, among other things, making “investments in multiple outside businesses without Firm knowledge or approval ...” and for failing to “follow the Firm’s procedures regarding verification of customer deposits ...” On September 18, 2015, RBC filed an amended Form U5 disclosing that Hudson had violated Firm policies “pertaining to ... political contributions.”

Hudson is not currently registered or associated with any member firm, but he

remains subject to FINRA jurisdiction pursuant to Article V, Section 4 of FINRA's By-Laws.

RELEVANT DISCIPLINARY HISTORY

Respondent has no disciplinary history.

OVERVIEW

From March 2002 to June 2015 (the "Relevant Period"), Hudson participated in private securities transactions, in the form of promissory notes, without providing prior written notice to RBC, in violation of NASD Rule 3040. Additionally, Hudson participated in multiple outside businesses without providing prior written notice to RBC, in violation of NASD Rule 3030 and FINRA Rule 3270. Finally, Hudson failed to follow RBC procedures regarding verification of customer assets, in violation of FINRA Rule 2010.

FACTS AND VIOLATIVE CONDUCT

A. Hudson Engaged in Private Securities Transactions without Providing Prior Written Notice to RBC, in Violation of NASD Rule 3040

NASD Rule 3040 prohibits any associated person from participating "in any manner in a private securities transaction, unless prior to participating in the transaction, the associated person provides "written notice ... describing in detail the proposed transaction and the person's proposed role therein and stating whether he has received or may receive selling compensation in connection with the transaction ..."¹ Rule 3040 defines "private securities transaction" to mean "any securities transaction outside the regular course or scope of an associated person's employment with a member."

At all times relevant hereto, RBC required employees to obtain written consent from RBC management before engaging in private securities transactions.

Before and during the Relevant Period, Hudson was actively engaged in an outside real estate business in and around Baltimore, Maryland. With various business partners, Hudson invested in real estate projects, including investments in single family homes, apartment complexes and other properties, for the purpose of receiving capital gains or rental income. Some of his business partners and real estate investors later became his customers at RBC.

As part of this outside real estate business, between July 2011 and October 2014, Hudson entered into a series of promissory notes away from the Firm totaling

¹ NASD Rule 3040 was superseded by FINRA Rule 3280, effective September 21, 2015, after the date of the transactions at issue.

\$490,000. The promissory notes are securities. In each case, the lender was a customer of RBC at the time and Hudson, either singly or in combination with a real estate investment company owned by Hudson and for which he acted as sole managing member, was the borrower or guarantor of the borrower. The purpose of these notes was to provide a vehicle for the individuals to invest in certain local real estate projects in which Hudson was a participant.

Hudson participated in the note transactions within the meaning of Rule 3040. Hudson did not seek or obtain written approval from RBC for any of the note transactions.

Accordingly, based on the foregoing, Hudson violated NASD Rule 3040 and FINRA Rule 2010.

B. Hudson Engaged in Outside Business Activities without Providing Prior Written Notice to RBC, in Violation of NASD Rule 3030 and FINRA Rule 3270

NASD Rule 3030, which was replaced by FINRA Rule 3270 on December 15, 2010, provides that “[n]o person associated with a member in any registered capacity shall be employed by, or accept compensation from, any other person as a result of any business activity, other than a passive investment, outside the scope of his relationship with his employer firm, unless he has provided prompt written notice to the member.”

Similarly, FINRA Rule 3270 provides that “[n]o registered person may be an employee, independent contractor, sole proprietor, officer, director or partner of another person, or be compensated, or have the reasonable expectation of compensation, from any other person as a result of any business activity outside the scope of the relationship with his or her member firm, unless he or she has provided prior written notice to the member, in such form as specified by the member. Passive investments and activities subject to the requirements of NASD Rule 3040 shall be exempted from this requirement.”

At all times relevant hereto, RBC required its employees to disclose, and receive approval for, outside activities. The Firm’s written policy stated that “[b]efore engaging in any outside business activity employees are required to receive prior written approval from the appropriate individuals in their management structure, with oversight from Compliance.”

During the Relevant Period, Hudson created and managed certain Maryland limited liability companies to further his outside real estate business, but did not seek or obtain RBC’s written approval for each entity in accordance with the Firm’s procedures. Hudson created and actively advanced the business interests of seven outside real estate investment companies for which he served in a managerial capacity. In addition, apart from his real estate ventures, Hudson served as President of a non-profit charitable organization. Hudson failed to

obtain written approval from RBC for these activities as required by the Firm's supervisory procedures.

Accordingly, based on the foregoing, Hudson violated NASD Rules 3030 and 2110 and FINRA Rules 3270 and 2010.²

C. Hudson Failed to Follow RBC Procedures Regarding Asset Verification Letters, in Violation of FINRA Rule 2010

FINRA Rule 2010 requires associated persons, in the conduct of their business, to observe high standards of commercial honor and just and equitable principles of trade. At all times relevant hereto, RBC maintained a set of written procedures concerning the verification of customer deposits. These written procedures stated that a "verification of deposit is a request received from an outside institution to verify a customer's assets held" at RBC. Such requests are handled by the Firm's Operations Support Department, which verifies and documents the customer's account information before sending such information to the outside institution at the customer's request.

From August 2010 to May 2015, on at least 21 occasions, Hudson sent letters, on his RBC letterhead, to various third-parties for the purpose of verifying the assets of certain RBC customers. Hudson, however, failed to submit these letters to RBC's Operations Support Department for supervisory review in accordance with the Firm's written procedures relating specifically to asset verification letters.

Accordingly, based on the foregoing, Hudson violated FINRA Rule 2010.

B. I also consent to the imposition of the following sanctions:

1. A six-month suspension from association with any FINRA member in any capacity; and
2. A fine of \$10,000.

The fine shall be due and payable either immediately upon re-association with a member firm, or prior to any application or request for relief from any statutory disqualification resulting from this or any other event or proceeding, whichever is earlier.

I specifically and voluntarily waive any right to claim that I am unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

² FINRA Rule 2010 superseded NASD Rule 2110, effective December 15, 2008, thus Hudson violated both rules during the Relevant Period.

I understand that if I am barred or suspended from associating with any FINRA member, I become subject to a statutory disqualification as that term is defined in Article III, Section 4 of FINRA's By-Laws, incorporating Section 3(a)(39) of the Securities Exchange Act of 1934. Accordingly, I may not be associated with any FINRA member in any capacity, including clerical or ministerial functions, during the period of the bar or suspension (see FINRA Rules 8310 and 8311).

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

II.

WAIVER OF PROCEDURAL RIGHTS

I specifically and voluntarily waive the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against me;
- 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, I specifically and voluntarily waive any right to claim bias or prejudice 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 acceptance or rejection of this AWC.

I further specifically and voluntarily waive 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

I understand 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 me; and
- C. If accepted:
 - 1. this AWC will become part of my permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against me;
 - 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 the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. I 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. I 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 my: (i) testimonial obligations; or (ii) right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. I may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. I understand that I 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 or its staff.

I certify that I have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it; that I have agreed to its 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 me to submit it

07/26/2017
Date (mm/dd/yyyy)

Patrick M. Hudson
Respondent
Patrick M. Hudson

By: Patrick M. Hudson

Reviewed by:
Dana S. Gloor, Esq.
Miles & Stockbridge P.C.
100 Light Street
Baltimore, MD 21202
Phone: 410-385-3849

Dana S. Gloor
Counsel for Respondent

Accepted by FINRA:

08/10/2017
Date

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

James F. Day
James F. Day
Vice President & Chief Counsel
FINRA Department of Enforcement
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