

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION
August 24, 2007

ADMINISTRATIVE PROCEEDING
File No. 3-12738

In the Matter of

**NEXT FINANCIAL GROUP,
INC.,**

Respondent.

**ORDER INSTITUTING
ADMINISTRATIVE AND CEASE-AND-
DESIST PROCEEDINGS PURSUANT TO
SECTIONS 15(b) AND 21C OF THE
SECURITIES EXCHANGE ACT OF 1934**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against NEXT Financial Group, Inc. (“Respondent” or “NEXT”).

II.

After an investigation, the Division of Enforcement alleges that:

A. RESPONDENT

1. **NEXT Financial Group, Inc.**, a broker-dealer headquartered in Houston, Texas, is a wholly owned subsidiary of NEXT Financial Holdings, Inc., a privately-held company. The company is owned and controlled by its registered representatives and employees. NEXT has over 700 registered representatives nationwide. NEXT has been registered with the Commission as a broker-dealer since June 1999. NEXT’s registered representatives are primarily retail salespersons and financial planners classified as independent contractors.

B. FACTS

1. NEXT recruits new registered representatives (“recruits”), encouraging them to leave their current broker-dealer and bring their current customers to NEXT, before customers had consented to the disclosure of their nonpublic personal information, or to the transfer of their account. To facilitate this process, NEXT devotes a team of employees to assist incoming

registered representatives with the account transfer process. This team of employees is known as NEXT's "transition team."

2. The transition team assists recruits by pre-populating account transfer documents such as customer notification letters, Automated Customer Account Transfer forms, NEXT new account information forms, change of broker-dealer letters, and mailing labels.

3. The transition team provides every recruit with a "transition tools e-mail" that contains a sample Excel spreadsheet many recruits used to supply NEXT with his or her current customer information, including nonpublic personal information.

4. Until February 2007, the customer information called for in the Excel spreadsheet included for each customer account: (1) name of the primary account owner, trustee, or custodian and the secondary account owner; (2) brokerage account numbers; (3) "direct" account numbers such as mutual fund account numbers and variable annuity account numbers; (4) whether or not each brokerage account is "managed;" (5) social security or tax identification numbers of primary and secondary account owners; (6) account type; (7) net worth; (8) annual income; (9) years of investment experience; (10) mailing address and, if that is a post office box, the actual residential, physical address; (11) home telephone number; (12) date of birth of the primary account owner; (13) bank name, city, state and zip code; (14) passport number; (15) driver's license number; (16) occupations of the primary and secondary account owners; and (17) the primary and secondary account owners' employers, with work addresses and work telephone numbers and fax numbers. Recruits provided this nonpublic personal information to NEXT prior to joining NEXT.

5. As of February 2007, NEXT stopped asking recruits to provide social security numbers, dates of birth and driver's license number for their customers. The information NEXT currently collects from recruits still includes other nonpublic personal information listed in paragraph II.B.4. above.

6. The transition team encouraged recruits to e-mail the completed Excel spreadsheet, which included nonpublic customer information, to NEXT to begin pre-populating the transition documents. Often, NEXT e-mails the database back to the recruit to be reformatted or to have the recruit add information. NEXT does not encrypt e-mail.

7. The transition team provides instructions to recruits on how to export data into spreadsheet format for use with other software programs that NEXT can use to create account transfer forms prior to the recruit joining NEXT.

8. The transition team explains to recruits the features of recruits' current broker-dealer computer system, including how these systems can be utilized to extract customer information, including nonpublic personal information, and export the information into NEXT's Excel spreadsheet.

9. Until on or about May 2006, in some instances, the NEXT transition team used recruits' user ID and password, provided by recruits, to access recruits' current broker-dealer's computer system. Once NEXT gained access to the other broker-dealer's system, the transition team extracted nonpublic personal information and downloaded the information to NEXT's home office computer network for the purpose of pre-populating transfer documents. The NEXT transition team also used recruits' user IDs and Passwords to access various mutual fund and annuity company websites to extract nonpublic personal information.

10. Recruits provide the customer information, including non-public personal information, two weeks prior to a recruit's employment with NEXT.

11. The printed transfer documents are sent to the recruit, who, upon his official start date with NEXT, immediately sends his customers notification of change letters and the pre-populated forms for the customers' review and signature.

12. On limited occasions NEXT used recruits' customer data to pre-populate NEXT's own internal back office client database system, and to facilitate opening new accounts. This allowed NEXT to create a customer profile containing nonpublic personal information before the individual actually became a customer of NEXT.

13. Until in or about May 2006, the NEXT database in which customer information was stored could be accessed by anyone at the NEXT home office. Nonpublic personal customer information was stored indefinitely on NEXT's common server. Even if a customer did not transfer his account to NEXT, the non-public personal information was maintained in the NEXT database.

14. On a limited number of occasions, NEXT also forwarded nonpublic information to its clearing firm in anticipation of a recruit transferring a large number of brokerage accounts to NEXT.

15. NEXT has received nonpublic personal customer information from a recruit, only to have the recruit decide not to join NEXT. The customer information was retained on the NEXT computer system.

16. Recruits' customers are not informed that their nonpublic personal customer information is being provided to NEXT before the information is provided to NEXT.

17. NEXT takes no steps to determine whether the privacy policies of the recruits' current firms disclose that a registered representative may transfer nonpublic personal customer information to NEXT or other nonaffiliated broker-dealers.

18. Generally, the Privacy Policies of the recruits' current broker-dealers do not disclose that their registered representatives may provide nonpublic personal customer information to nonaffiliated broker-dealers, such as NEXT.

19. Generally, the Privacy Policies of the recruits' current broker-dealers do not provide the customers an opt out notice or a reasonable opportunity to opt out of the disclosure to NEXT of nonpublic personal customer information by the recruit.

20. When a registered representative leaves NEXT he is permitted to take copies of all his customer files and documents which include nonpublic personal information.

21. Registered representatives departing NEXT are also allowed to download, and take with them, their customer information from any electronic database to which they have access. This includes all their customer information from mutual fund and annuity companies, the NEXT internal database system, and the clearing broker-dealer host computer system.

22. Until June 2006, the NEXT privacy policy did not clearly and conspicuously inform the customer that NEXT would allow the registered representative leaving NEXT to provide the customers' nonpublic personal information to a new firm without the customers' consent. Customers also had not been given a reasonable opportunity to opt out of NEXT's practice of allowing a customer's nonpublic personal information to be provided to the registered representative's new firm.

C. VIOLATIONS

1. As a result of the conduct described above, Respondent willfully violated Regulation S-P Rule 10, which prohibits the disclosure of nonpublic personal information about consumers to nonaffiliated third parties without proper opt out notice and reasonable opportunity to opt out.

2. As a result of the conduct described above, Respondent willfully violated Regulation S-P Rule 30, which requires every broker-dealer to adopt policies and procedures to safeguard customer records and information. By allowing registered representatives to take customer nonpublic personal information with them, NEXT failed to ensure the security of customer records and information, and failed to protect against unauthorized access to customer records.

3. As a result of the conduct described above, Respondent willfully violated Regulation S-P Rule 4, which requires a broker-dealer to provide customers with a clear and conspicuous notice that accurately reflects the broker-dealer's privacy policies and practices.

4. As a result of the conduct described above, Respondent willfully violated Regulation S-P Rule 6, which requires privacy notices to include the categories of nonpublic personal information that will be disclosed, and the categories of affiliates and nonaffiliated third parties to which nonpublic personal information may be disclosed.

5. As a result of the conduct described above, Respondent willfully aided and abetted and caused other broker-dealers' violations of Regulation S-P Rule 10, which prohibits the

disclosure of nonpublic personal information about consumers to nonaffiliated third parties without proper notice and reasonable opportunity to opt out.

III.

In view of the allegations made by the Division of Enforcement, the Commission deems it necessary and appropriate in the public interest that public administrative and cease-and-desist proceedings be instituted to determine:

A. Whether the allegations set forth in Section II are true and, in connection therewith, to afford Respondent an opportunity to establish any defenses to such allegations;

B. What, if any, remedial action is appropriate in the public interest against Respondent pursuant to Section 15(b) of the Exchange Act including, but not limited to, civil penalties pursuant to Section 21B of the Exchange Act;

C. Whether, pursuant to Section 21C of the Exchange Act, Respondent should be ordered to cease and desist from committing or causing violations of and any future violations of Regulation S-P Rules 6, 10, 30, or 4.

IV.

IT IS ORDERED that a public hearing for the purpose of taking evidence on the questions set forth in Section III hereof shall be convened not earlier than 30 days and not later than 60 days from service of this Order at a time and place to be fixed, and before an Administrative Law Judge to be designated by further order as provided by Rule 110 of the Commission's Rules of Practice, 17 C.F.R. § 201.110.

IT IS FURTHER ORDERED that Respondent shall file an Answer to the allegations contained in this Order within twenty (20) days after service of this Order, as provided by Rule 220 of the Commission's Rules of Practice, 17 C.F.R. § 201.220.

If Respondent fails to file the directed answer, or fails to appear at a hearing after being duly notified, the Respondent may be deemed in default and the proceedings may be determined against him upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 155(a), 220(f), 221(f) and 310 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.155(a), 201.220(f), 201.221(f) and 201.310.

This Order shall be served forthwith upon Respondent personally or by certified mail.

IT IS FURTHER ORDERED that the Administrative Law Judge shall issue an initial decision no later than 300 days from the date of service of this Order, pursuant to Rule 360(a)(2) of the Commission's Rules of Practice.

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision of this matter, except as witness or counsel in proceedings held pursuant to notice. Since this proceeding is not “rule making” within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed subject to the provisions of Section 553 delaying the effective date of any final Commission action.

By the Commission.

Nancy M. Morris
Secretary