

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2008011590901**

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REGISTRATION & DISCLOSURE

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

RE: First Southwest Company, Respondent
Member Firm
CRD No. 316

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, First Southwest Company ("First Southwest" or "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 First Southwest alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. First Southwest hereby accepts and consents, 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

The FINRA membership of First Southwest was approved on March 25, 1946. The firm has 23 branch offices and approximately 223 registered persons. The firm offers a variety of investment services including the following: (1) the retailing of corporate equity and debt securities; (2) the purchase and sale of mutual funds, government securities, variable life insurance and annuities, and limited partnerships; and (3) the purchase and sale of equity options.

RELEVANT DISCIPLINARY HISTORY

On July 26, 2007, FINRA accepted an AWC (No. E062004030201) whereby First Southwest was censured and fined \$110,000 for failing to timely report customer transactions and inter-dealer transactions in municipal securities, and for related supervisory deficiencies, all in violation of MSRB Rules G-14 and G-27.

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On July 26, 2007, FINRA accepted an AWC (E062004005102) whereby First Southwest was censured and fined \$50,000 for failing to timely file various MSRB forms, in violation of MSRB Rule G-36.

OVERVIEW

During the months of July 2007, October 2007, and April 2008, Respondent First Southwest Company failed to include an accurate reference to seconds in its transaction reports to the MSRB, in violation of MSRB Rule G-14. For some municipal transactions, the firm's reported execution times to the MSRB were not consistent with the execution times as reflected on the order tickets for the reported transactions, in violation of MSRB Rule G-14. Moreover, First Southwest Company failed to adequately monitor its trade reporting to the MSRB to ensure compliance with MSRB Rule G-14, in violation of MSRB Rule G-27.

FACTS AND VIOLATIVE CONDUCT

1. During the months of July 2007, October 2007, and April 2008, Respondent First Southwest Company reported 97 transactions to the MSRB without including an accurate reference to seconds in the execution time. Moreover, for 16 of these municipal transactions, the firm's reported execution times to the MSRB were not consistent with the execution times as reflected on the order tickets for the reported transactions.

Such acts, practices, and conduct constitute separate and distinct violations of MSRB Rule G-14 by Respondent First Southwest Company.

2. During the months of July 2007, October 2007, and April 2008, Respondent First Southwest Company failed to adequately monitor its trade reporting to ensure compliance with MSRB Rule G-14, in violation of MSRB Rule G-27.

Such acts, practices and conduct constitute separate and distinct violations of MSRB Rule G-27 by Respondent First Southwest Company.

- B. First Southwest also consents to the imposition of the following sanctions:

A censure and a monetary fine of \$10,000.

First Southwest agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. First Southwest has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

First Southwest specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

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

II.

WAIVER OF PROCEDURAL RIGHTS

First Southwest specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against First Southwest;
- 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, First Southwest specifically and voluntarily waives any right to claim bias or prejudgment of the General Counsel, 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.

First Southwest further specifically and voluntarily waives 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

First Southwest understands 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 First Southwest; and
- C. If accepted:
 - 1. this AWC will become part of First Southwest's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against First Southwest;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about First Southwest's disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. First Southwest 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. First Southwest 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 First Southwest's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. First Southwest may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. First Southwest understands that it may not deny the charges or make any

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No. 2008011590901/First Southwest Company

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.

The undersigned, on behalf of the First Southwest certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that First Southwest has 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 First Southwest to submit it.

First Southwest Company

11/6/09
Date

By: [Signature]
(signature)

Name: HILL A. FEINBERG
(printed name)

Title: COB & CEO

Accepted by FINRA:

11-30-2009
Date

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

[Signature]

~~George C. McGuigan Jr.~~ Karen E. Whitaker
Senior Regional Counsel

FINRA Department of Enforcement
12801 North Central Expressway
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Dallas, Texas 75243

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FirstSouthwest
A PlainsCapital Company.

325 North St. Paul Street
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214-953-4216 Direct
214-840-5044 Fax

November 9, 2009

George McGuigan
Senior Regional Counsel
FINRA District 6 Office
12801 North Central Expressway
Suite 1050
Dallas, TX 75243-1778

RE: Letter of Acceptance, Waiver and Consent
Exam or Investigation No.20080115909

Mr. McGuigan:

First Southwest Company ("FSC" or "the firm"), FSC wishes to provide you with additional information related to the corrective action the firm has taken to address the reporting of municipal securities transactions. The information contained herein should be considered a supplement to the firm's previous responses to this matter, dated July 14, 2008, October 31, 2008, and June 16, 2009, respectively. This Corrective Action Statement is submitted by the Respondent. It does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA, or its staff.

As stated in previous correspondence, in an effort to address this reporting issue, FSC assigned personnel from Operations, Information Technology, Capital Markets, and Compliance. These personnel have spent over 400 man-hours developing a solution to the seconds reporting of municipal bond transactions. The solution involved making several iterative updates to the version of Bloomberg used by FSC, as well as coordinating a programming solution with SIS. As of the writing of this letter, FSC has implemented the full reporting of seconds for municipal securities, bringing the firm into compliance with the requirements of MSRB Rule G-14. Additionally, FSC has assigned firm personnel to review this process to ensure that the firm continues to report this information completely and accurately.

This letter, as well as previous correspondence on this issue, evidences FSC's commitment to timely and accurate trade reporting. The firm has deployed significant resources and proactively engaged vendors to address the reporting of seconds. You may contact the undersigned with any questions related to this issue at (214) 953-4216.

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BY: FINRA DIST 06

Robert Coulter
Senior Vice President
Director of Compliance

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