

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20080124196-01**

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

RE: Collins Stewart LLC, Respondent
Broker-Dealer
CRD No. 24790

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Collins Stewart LLC (the "firm") 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 the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The firm 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 firm has been a member of FINRA since July 28, 1989, and its registration remains in effect. The firm has no relevant disciplinary history.

SUMMARY

In connection with matter no. 20080124196, Trading and Market Making Surveillance ("TMMS") staff reviewed the trading activity of the firm, set forth in Exhibit 1, for the trade date, January 23 and 24, 2008, unless otherwise noted.¹

¹ Conduct that was found to be violative of Nasdaq Rules as a result of this examination is addressed in a separate AWC.

In connection with matter no. 20080132169, Market Regulation staff from the Customer Issues group reviewed the trading activity of the firm for the review period July 1, 2007 through September 30, 2007.

FACTS AND VIOLATIVE CONDUCT

In connection with matter no. 20080124196:

1. During the review period, the firm, on 21 occasions, accepted a short sale order in an equity security from another person, or effected a short sale in an equity security for its own account, without (1) borrowing the security, or entering into a bona-fide arrangement to borrow the security; or (2) having reasonable grounds to believe that the security could be borrowed so that it could be delivered on the date delivery is due; and (3) documenting compliance with SEC Rule 203(b)(1) of Regulation SHO. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 203(b)(1) of Regulation SHO.
2. The firm failed on 22 occasions to provide written notification disclosing to its customer its correct capacity in the transaction. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 10b-10.
3. During the review period, the firm transmitted to OATS ten reports that contained inaccurate, incomplete, or improperly formatted data. Specifically, the firm failed to submit "Cancel Replace" reports, reported non-reportable transactions to OATS, and failed to submit certain reports for one of its MPIDs. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).
4. The firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to certain applicable securities laws and regulations, and/or the Rules of NASD. At a minimum, adequate written supervisory procedures addressing quality of markets topics should describe the following:
 - (a) specific identification of the individual(s) responsible for supervision;
 - (b) the supervisory steps and reviews to be taken by the appropriate supervisor;
 - (c) the frequency of such reviews; and
 - (d) how such reviews shall be documented.

The firm's written supervisory procedures failed to provide for one or more of the four above-cited minimum requirements for adequate written supervisory procedures, in the following subject areas: Order Handling [SEC Rules 605 & 606] (b, d); Best Execution [principal transactions] (a-d); Trade Reporting (b-d); Sales Transactions

[Short Sales and Short Sales reporting] (a-d); and Multiple MPIDs (a-d). The conduct described in this paragraph constitutes a violation of NASD Rules 2110 and 3010.

In connection with matter no. 20080132169:

5. In six instances during the review period, the firm accepted and held customer market orders, traded for its own account at prices that would have satisfied the customer market orders, and failed to immediately thereafter execute the customer market orders. In addition, in 37 instances during the review period, the firm accepted and held customer market orders, traded for its own account at prices that would have satisfied the customer market orders, and failed to immediately thereafter execute the customer market orders up to the size and at the same price at which it traded for its own account or at a better price. The instances are reflected on Exhibit 2. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rules 2110 and 2111(b).

B. The firm also consents to the imposition of the following sanctions:

A censure and fine of \$25,000, restitution, and an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraph I.A.4.

The fine consists of the following:

1. \$7,500 for SEC Rule 203b;
2. \$2,500 for SEC Rule 10b-10;
3. \$5,000 for NASD Rule 6955;
4. \$5,000 for NASD Rules 3010 and 2110; and
5. \$5,000 for NASD Rules 2111(b) and 2110.

Restitution by Respondent to the customers listed on Exhibit 2 which is attached, in the total amount of \$ 56.00, plus interest at the rate set forth in Section 6621(a) of the Internal Revenue Code, 26 U.S.C. 6621(a)(2), from the date of the violative conduct until the date this AWC is accepted by the National Adjudicatory Council. A registered principal of the firm shall submit satisfactory proof of payment of the restitution, or of reasonable and documented efforts undertaken to effect restitution, to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850 or in an e-mail from a work-related account of the registered principal to MarketRegulationComp@finra.org, no later than 120 days after acceptance of this AWC. If for any reason, Respondent cannot locate any customer after reasonable and documented efforts within such period, or such additional period agreed to by the staff, Respondent shall forward any undistributed restitution and interest to the appropriate

escheat, unclaimed-property or abandoned-property fund for the state in which the customer is known to have last resided.

Within 30 business days of acceptance of this AWC by the NAC, a registered principal of the Respondent shall submit to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850, a signed, dated letter, or an e-mail from a work-related account of the registered principal to MarketRegulationComp@finra.org, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its written supervisory procedures to address the deficiencies described in paragraph I.A.4; and (3) the date the revised procedures were implemented.

The firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. It has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

The firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter.

The sanctions imposed herein shall be effective on a date set by FINRA staff. Pursuant to FINRA Rule 8313(e), a bar or expulsion shall become effective upon approval or acceptance of this AWC.

II.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Complaint issued specifying the allegations against the firm;
- 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, the firm 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.

The firm 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

The firm understands that:

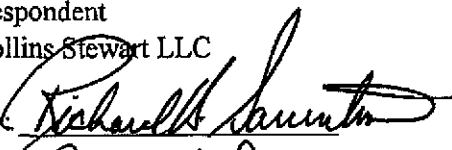
- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; and
- C. If accepted:
 - 1. this AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the firm;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the firm'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. The firm 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. The firm 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 the firm's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

- D. The firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The firm understands that it 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.

The undersigned, on behalf of the Firm, 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 it has agreed to the AWC's 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 the firm to submit it.

August 17, 2010
Date

Respondent
Collins Stewart LLC

By: 

Name: Richard A. Sorrentino

Title: Chief Compliance Officer

Reviewed by:



Attorney Name - Randall S. Fenlon, Esq.
Counsel for Respondent

Accepted by FINRA:

9/23/10
Date

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

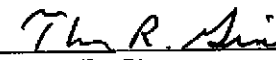

Thomas R. Gira
Executive Vice President
Department of Market Regulation

Exhibit #1**Collins Stewart, LLC (20080124196)****The staff reviewed the following samples during the exam:**

<u>Sample Size</u>	<u>Review Area</u>	<u>Sample Source</u>
	customer and proprietary sell orders, for compliance with SEC Rules 200(g) and/or 203(b),	from trade dates January 23 and 24, 2008,
378	customer and proprietary sales, for compliance with NASD Rule 6130,	from trade dates January 23 and 24, 2008,
11	cancelled transactions for compliance with the requirement to cancel trade reports within ninety seconds of cancellation from books and records,	from trade dates January 23 and 24, 2008,
100	limit and market orders executed as principal, for compliance with NASD Rules 2110 (and IM-2110-2) 2111, 6440, 6541 and 2320, and SEC Rules 601 and 604,	from trade dates January 23 and 24, 2008,
10	not held customer orders, for compliance with NASD Rules 2320 and NASD Rule IM 2110-06,	from trade dates January 23 and 24, 2008,
3	orders in securities for which the firm was a market center, for compliance with the order size/type classification requirements of SEC Rule 605,	from trade dates January 23 and 24, 2008,
4 orders (3 categories)	security/size/order data statistics published on the firm's monthly order execution report, for compliance with SEC Rule 605,	from the statistics published for the December of 2007,
N/A	data published on the firm's quarterly order routing report, for compliance with SEC Rule 606,	from the report published for the 4 th quarter of 2007,
56	orders in NNM or SC securities submitted to OATS, for compliance with NASD Rule 6955,	from trade dates January 23 and 24, 2008,
4	trades reported to ACT or TRACS with the .RO modifier, for general compliance with NASD Trade Reporting and ACT rules,	from trade dates January 23 and 24, 2008,
8	trades in NNM or SC securities reported with a transaction modifier, for compliance with NASD Rules 4632 and 2320,	from trade dates January 23 and 24, 2008,
196	Orders entered in the Nasdaq SingleBook system from compliance with NASDAQ Rule 4755,	from trade dates January 23 and 24, 2008,
4	orders for NASDAQ securities in soft dollar accounts for compliance with trade reporting rules and the safe harbor limitations of SEC section 28(e),	from trade dates January 23 and 24, 2008,
1441	trades reported to ACT or TRACS in connection with the above samples, for general compliance with NASD Trade Reporting and ACT rules,	from trade dates January 23 and 24, 2008,
254	order/trade records prepared and maintained in connection with the above samples, for general compliance with NASD Rule 3110 and SEC Rules 17a-3 and 17a-4,	from trade dates January 23 and 24, 2008,

41	customer trade confirmations reviewed in connection with the above samples, for compliance with SEC Rule 10b-10,	from trade dates January 23 and 24, 2008,
<u><i>Sample Size</i></u>	<u><i>Review Area</i></u>	<u><i>Sample Source</i></u>
N/A	the firm's establishment and implementation of "regular & rigorous" reviews of the execution quality of orders sent to other market centers and internalized, for compliance with NASD Rules 2320 and 3010,	based on WSPs in effect during January of 2008,
N/A	the firm's establishment and implementation of a supervisory system and written supervisory procedures, for compliance with NASD Rule 3010.	based on WSPs in effect during January of 2008,

Item No.	Trade Date	Issue	Volume	Trade Execution Time	Price	Order Item No.	Order Receipt Date	Order Receipt Time	Order Size	Restitution Amount
1	07/09/2007	SMSI	100	09:38:46	15.75	1	07/09/2007	09:38:34	4500	\$20.00
2	07/09/2007	SMSI	400	09:38:46	15.75					
3	07/09/2007	SMSI	100	9:39:40	15.78					
4	07/09/2007	SMSI	100	9:39:40	15.78					
5	07/09/2007	SMSI	100	9:39:40	15.78					
6	07/09/2007	SMSI	100	9:39:40	15.78					
7	07/09/2007	SMSI	100	09:38:46	15.78					
8	07/09/2007	OVEN	100	10:22:31	13.74	3	07/09/2007	10:22:18	16000	N/A
9	07/11/2007	LANC	100	10:38:43	41.69	4	07/11/2007	10:36:18	5000	\$12.00
10	07/11/2007	LANC	100	10:37:33	41.69					
11	07/11/2007	LANC	100	10:37:33	41.69					
12	07/11/2007	LANC	100	10:37:33	41.69					
13	07/11/2007	LANC	100	10:37:33	41.69					
14	07/11/2007	LANC	100	10:37:33	41.69					
15	07/13/2007	LNCR	2300	11:06:36	40.25	5	07/13/2007	11:06:20	2500	N/A
16	07/13/2007	LNCR	100	11:06:36	40.25					
17	07/13/2007	LNCR	100	11:06:36	40.25					
18	07/13/2007	LNCR	100	14:27:18	40.39	6	07/13/2007	14:26:54	2500	N/A
19	07/13/2007	LNCR	100	14:51:05	40.42	7	07/13/2007	14:50:40	2500	N/A
20	09/21/2007	MRVL	100	10:32:58	15.84	9	09/21/2007	10:32:25	10000	\$24.00
21	09/21/2007	MRVL	100	10:33:12	15.84					
22	09/21/2007	MRVL	100	10:33:12	15.84					
23	09/21/2007	MRVL	100	10:33:12	15.84					
24	09/21/2007	MRVL	100	10:33:12	15.84					
25	09/21/2007	MRVL	100	10:33:12	15.84					
26	09/21/2007	MRVL	100	10:33:12	15.84					
27	09/21/2007	MRVL	100	10:33:12	15.84					
28	09/21/2007	MRVL	100	10:33:13	15.84					
29	09/21/2007	MRVL	100	10:33:13	15.84					
30	09/21/2007	MRVL	100	10:33:13	15.84					
31	09/21/2007	MRVL	100	10:33:13	15.84					
32	09/21/2007	MRVL	100	10:33:13	15.84					
33	09/21/2007	MRVL	100	10:33:13	15.84					
34	09/21/2007	MRVL	100	10:33:13	15.84					
35	09/21/2007	MRVL	100	10:33:13	15.84					
36	09/21/2007	MRVL	100	10:33:14	15.84					
37	09/21/2007	MRVL	100	10:33:14	15.84					
38	09/21/2007	MRVL	100	10:33:14	15.84					
39	09/21/2007	MRVL	100	10:33:14	15.84					
40	09/21/2007	MRVL	100	10:33:14	15.84					
41	09/21/2007	MRVL	100	10:33:14	15.84					
42	09/21/2007	MRVL	100	10:33:14	15.84					
43	9/21/2007	MRVL	100	10:33:15	15.84					
									Total:	\$56.00