

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2013038322901**

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, 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 Respondent alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. Respondent 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

First Southwest Company ("First Southwest", "Respondent", or the "Firm") has been a registered broker-dealer since March 1946. First Southwest is headquartered in Dallas, Texas. The Firm offers a variety of investment services, including corporate equity and debt securities, mutual funds, government securities, municipal securities, variable life insurance and annuities, limited partnerships, closed-end funds, exchange traded funds, unit investment trusts, and equity options. First Southwest also offers clearing services to 78 correspondent firms.

RELEVANT DISCIPLINARY HISTORY

First Southwest has no prior relevant disciplinary history.

OVERVIEW

From August 8, 2012 through April 26, 2013 ("Relevant Period"), First

Southwest failed to deliver Exchange Traded Fund (“ETF”) prospectuses to its own customers at the time of delivery of the security in contravention of Section 5 of the Securities Act of 1933 (“Securities Act”) and thereby in violation of FINRA Rule 2010. In addition, First Southwest failed to establish and maintain a supervisory system reasonably designed to monitor and ensure the delivery of prospectuses to customers in violation of NASD Rule 3010 and FINRA Rule 2010. Lastly, First Southwest, in violation of FINRA Rule 2010, failed to observe high standards of commercial honor and just and equitable principals of trade when it delayed notification of its prospectus delivery failures to the 36 correspondent firms affected by the failures.

FACTS AND VIOLATIVE CONDUCT

1. First Southwest Failed to Timely Deliver Prospectuses in Contravention of Section 5(b)(2) of the Securities Act.

Section 5(b)(2) of the Securities Act requires, among other things, any person who sells securities to provide a copy of the prospectus for these securities at the time they are delivered unless the prospectus was delivered beforehand. FINRA Rule 2010 states, “A member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade.” Acting in contravention of Section 5 of the Securities Act constitutes a violation of FINRA Rule 2010.

On August 8, 2012, First Southwest’s clearing operations converted its back-office system to a new electronic platform. As part of the conversion, First Southwest was required to code the new electronic system to instruct its third party vendor to deliver a prospectus at the same time that securities were delivered. Over the course of approximately seven months beginning in August 2012, the coding was erroneous for certain securities transactions effected by the Firm’s customers, which resulted in the Firm’s failure to deliver a prospectus for at least 506 securities transactions valued at approximately \$40 million. By failing to deliver a prospectus to its customers at the time the security was delivered or beforehand, First Southwest acted in contravention of Section 5 of the Securities Act, and thereby violated FINRA Rule 2010.

2. First Southwest Failed to Establish, Maintain and Enforce a Supervisory System Reasonably Designed to Ensure Timely Delivery of Prospectuses.

NASD Rule 3010 requires FINRA members to establish, maintain and enforce systems and procedures to supervise each type of business in which they engage. The systems and procedures must be reasonably designed to achieve compliance with securities laws, rules and regulations. A failure to comply with NASD Rule 3010 also constitutes a violation of FINRA Rule 2010.

During the Relevant Period, First Southwest failed to establish, maintain and enforce an adequate supervisory system and written supervisory procedures to ensure that customers who purchased certain investment products were receiving a required prospectus. Specifically, although First Southwest had a report to confirm that the vendor had delivered a prospectus when it was instructed to do so, First Southwest's supervisory systems and written supervisory procedures did not identify transactions where a prospectus was required to be delivered but was not, nor did the Firm have adequate written supervisory procedures to ensure that prospectuses were being delivered on a timely basis consistent with Section 5(b)(2) of the Securities Act. As a result of such conduct, First Southwest violated NASD Rule 3010 and FINRA Rule 2010.

3. First Southwest Delayed Notification of the Prospectus Delivery Failures to its Correspondent Firms.

During the Relevant Period, First Southwest failed to deliver a prospectus for thousands of ETF, Closed-End Fund ("CEF") and Unit Investment Trust ("UIT") purchase transactions for 36 correspondent firms that cleared through First Southwest (the "Correspondents").

First Southwest's prospectus delivery failures were identified in April 2013 when the Firm responded to a FINRA request seeking documentation that the Firm was delivering prospectuses to ETF, UIT, and CEF customers. Although First Southwest became aware of the prospectus delivery system failures in April 2013, it did not provide notice of the prospectus delivery failures to the Correspondents until over a year later, in August 2014. First Southwest's delay in notifying its affected Correspondents of the prospectus delivery failures violated FINRA Rule 2010, which requires a firm, in the conduct of its business, to observe high standards of commercial honor and just and equitable principals of trade.

B. Respondent also consents to the imposition of the following sanctions:

First Southwest shall be censured and fined \$450,000.

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

Respondent 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

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

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

Respondent 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

Respondent 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 Respondent; and

C. If accepted:

1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against Respondent;
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. Respondent 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. Respondent 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 Respondent's: (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. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent 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 have been given a full opportunity to ask questions about it; that Respondent 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 the Firm to submit it.

6/17/15
Date

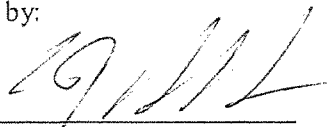
First Southwest Company, Respondent

By: Blake Morris
(Signature)

Name: Blake Morris
(Print Name)

Title: Chief Compliance Officer

Reviewed by:

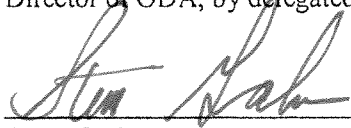


Gerald J. Russello
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212-839-5716

Accepted by FINRA:

7/16/2015
Date

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



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