

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2021069348401**

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

RE: First Southern, LLC (Respondent)
Member Firm
CRD No. 282756

Pursuant to FINRA Rule 9216, Respondent First Southern, LLC 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 in this AWC.

I.

ACCEPTANCE AND CONSENT

- A. Respondent accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

First Southern has been a FINRA member since December 2016 and a Municipal Securities Rulemaking Board (MSRB) registrant since September 2017. The firm is headquartered in Guaynabo, Puerto Rico and currently employs 42 registered representatives in four branch offices.¹

OVERVIEW

Since June 30, 2020, First Southern has failed to establish, maintain, and enforce written policies and procedures and a supervisory system reasonably designed to achieve compliance with Regulation Best Interest in violation of Securities Exchange Act Rule 15l-1(a)(1), MSRB Rule G-27, and FINRA Rules 3110 and 2010. Additionally, since January 2020, First Southern has not accurately calculated its net capital, has filed at least 29 inaccurate FOCUS reports, and has failed to reasonably supervise those financial activities in violation of Section 17(a) of the Exchange Act, Exchange Act Rules 17a-3 and 17a-5, MSRB Rules G-8(a)(x) and G-27, and FINRA Rules 3110 and 2010. Finally, between November 2017 and December 2021, First Southern failed to timely and accurately report approximately 5,000 transactions to the MSRB's Real-time Transaction Reporting System (RTRS) and failed to reasonably supervise that reporting in violation

¹ For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

of MSRB Rules G-14 and G-27. First Southern is censured, fined \$250,000, and has agreed to undertake corrective action.

FACTS AND VIOLATIVE CONDUCT

This matter originated from FINRA's cycle exam of First Southern.

A. First Southern did not establish written policies and procedures and a supervisory system reasonably designed to comply with Regulation Best Interest.

As of June 30, 2020, broker-dealers and their associated persons are required to comply with Regulation BI under the Securities Exchange Act of 1934. Rule 15c-1(a)(1) of Reg BI requires a broker, dealer, or a natural person associated with a broker or dealer, when making a recommendation of any securities transaction or investment strategy involving securities (including account recommendations) to a retail customer, to act in the best interest of that retail customer at the time the recommendation is made, without placing the financial or other interest of the broker, dealer, or associated person ahead of the interest of the retail customer.

Reg BI's Compliance Obligation, set forth at Exchange Act Rule 15c-1(a)(2)(iv), requires a broker-dealer to establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Reg BI. Reg BI's Adopting Release provides that broker-dealers should consider the nature of that firm's operations and how to design such policies and procedures to prevent violations from occurring, detect violations that have occurred, and to correct promptly any violations that have occurred.²

FINRA Rule 3110 requires member firms to establish, maintain, and enforce a supervisory system, including written procedures, to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws, regulations, and FINRA rules.

Violations of Reg BI or FINRA Rule 3110 also are violations of FINRA Rule 2010, which requires member firms to observe high standards of commercial honor and just and equitable principles of trade in the conduct of their business.

MSRB Rule G-27 requires brokers, dealers, and municipal securities dealers to establish and maintain a supervisory system, including written procedures, to supervise the conduct of their municipal securities activities to ensure compliance with MSRB rules and applicable provisions of the Securities Exchange Act of 1934 and Exchange Act rules.

Since June 30, 2020, First Southern has failed to establish, maintain, and enforce written policies and procedures reasonably designed to achieve compliance with Reg BI.

Although the firm's written supervisory procedures address Reg BI in general terms, they

² *Regulation Best Interest: The Broker-Dealer Standard of Conduct*, Exchange Act Release No. 86031, 84 FR 33318 at 33397 (July 12, 2019).

largely restate the rule, and lack reasonable procedures to prevent, detect, or promptly correct violations of Reg BI or to otherwise achieve compliance with Reg BI, including with respect to the firm's municipal securities activities. Nor did the written supervisory procedures provide controls to prevent violations of Reg BI.

Therefore, First Southern violated Securities Exchange Act Rule 15c-1(a)(1), MSRB Rule G-27, and FINRA Rules 3110 and 2010.

B. First Southern maintained inaccurate books and records of its net capital and filed inaccurate FOCUS Reports.

Exchange Act Section 17(a)(1) requires registered broker-dealers to make and keep for prescribed periods such records as the Commission deems "necessary or appropriate in the public interest, for the protection of investors or otherwise in furtherance of the purposes of" the Exchange Act. Exchange Act Rule 17a-3(a)(11) requires broker-dealers to make and keep current a record of their computation of their aggregate indebtedness and net capital, as of the trial balance date. Exchange Act Rule 15c3-1(c)(2)(viii) requires broker-dealers to deduct from its net capital the relevant deduction for any open contractual commitment in the proprietary or other accounts of the broker-dealer. Exchange Act Rule 17a-5 requires every broker-dealer to prepare and file monthly or quarterly Financial and Operational Combined Uniform Single (FOCUS) reports containing certain accounting and financial information, including the firm's minimum required net capital, net capital, and excess net capital. FINRA Rule 4511 requires members to make and preserve books and records as required under FINRA Rules, the Exchange Act and applicable Exchange Act Rules. MSRB Rule G-8(a)(x) provides that every broker, dealer, and municipal securities dealer subject to the provisions of Exchange Act Rule 15c3-1 shall make and keep current the books and records required under certain subparagraphs of Exchange Act Rule 17a-3. Inherent in the obligation to make and preserve books and records is the requirement that they be accurate.

Since January 2020, First Southern has inaccurately calculated its aggregate indebtedness and net capital. Specifically, when participating in a firm commitment offering of municipal securities, First Southern is required to take certain maturity- and CUSIP-specific haircuts on the underwritten municipal securities it committed to purchase (known as open contractual commitment charges) from its net capital. First Southern is required to report the haircuts it has taken on open contractual commitments that remain outstanding at month's end on all FOCUS reports it files.

Rather than apply the maturity- and CUSIP-specific haircuts, First Southern uses a blanket seven percent haircut when calculating the value of its open contractual commitments of municipal securities the firm underwrites. As a result, First Southern miscalculates the actual open contractual commitment charges associated with its firm commitment underwriting activity. Relatedly, First Southern has not reported any haircuts on at least 29 FOCUS reports it filed even though certain of the firm's open contractual commitments remained outstanding at month's end. Since January 2020, the firm's general ledger and record of its computation of its aggregate indebtedness and net

capital, and at least 29 FOCUS reports filed by the firm based on those computations, has understated the firm's actual excess net capital.

Therefore, First Southern violated Section 17(a) of the Exchange Act, Rules 17a-3 and 17a-5 thereunder, FINRA Rule 4511, and MSRB Rule G-8.

C. First Southern failed to establish and maintain a supervisory system reasonably designed to achieve compliance with net capital and related requirements.

Since January 2020, First Southern's supervisory system, including its written supervisory procedures, has not been reasonably designed to achieve compliance with Exchange Act rules requiring the firm to accurately calculate its net capital. The firm's written supervisory procedures do not address the requirement that the firm account for its open contractual commitments when participating in firm commitment municipal securities offerings nor does it provide any guidance for how to apply the correct haircut when calculating its open contractual commitment charges. The firm does not otherwise supervise the inclusion of these charges in its net capital calculations.

Therefore, First Southern violated MSRB Rule G-27.

D. First Southern failed to timely and accurately report certain municipal securities transactions.

MSRB Rule G-14 sets out the requirements that apply to firms when reporting transactions to the MSRB's RTRS. Accurate and timely reporting to the RTRS ensures correct dissemination of transaction information, increases price transparency, and enhances regulatory oversight of municipal securities trading. MSRB Rule G-14(b)(i) requires each broker, dealer, and municipal securities dealer to report "information about each purchase and sale transaction effected in municipal securities to the [RTRS] in the manner prescribed by Rule G-14 RTRS Procedures and the RTRS Users Manual," which includes the Specifications for Real-time Reporting of Municipal Securities Transactions. MSRB Rule G-14(b)(ii) requires each broker, dealer, and municipal securities dealer to report this information promptly, accurately, and completely. Rule G-14 RTRS Procedure (a)(ii) generally requires that transactions be reported to the RTRS within fifteen minutes of time of execution. The Specifications require that the firm report its trading capacity as principal or agent.

Between November 2017 and December 2021, First Southern failed to report to the RTRS an accurate time of execution and capacity for approximately 5,000 municipal securities transactions executed for an affiliated hedge fund. The firm's MSRB reporting errors were attributable to its practice of bulk reporting at the market's close all same-side, same-security transactions in which its affiliated hedge fund participated. The result was that in approximately 5,000 instances, First Southern reported customer trades for its affiliated hedge fund more than fifteen minutes after it timely reported the corresponding interdealer and/or street-side trades. The delay of such reporting ranged from fifteen minutes to eight hours, with an average lag time of nearly three-and-a-half hours. For

these same trades, the firm incorrectly reported its trading capacity as “agency” when they were actually executed on a principal basis. The reports in question represent approximately 37% of the firm’s total reports in municipal securities transactions during that time. First Southern corrected this “batch upload” practice in December 2021 and presently relies on a manual upload process to ensure that trades are reported timely and accurately.

As a result of its failure to timely and accurately report certain municipal securities transactions to RTRS, First Southern violated MSRB Rule G-14.

E. First Southern’s supervisory system was not reasonably designed to ensure compliance with MSRB reporting rules.

Between November 2017 and December 2021, First Southern’s written supervisory procedures required that all municipal transactions be reported to the RTRS within fifteen minutes of their completion. Yet during that time, First Southern established no system to supervise its adherence to that requirement. It had no supervisory process to review the accuracy of its reports as to trading capacity. The firm also did not identify an individual responsible for the firm’s timely and accurate reporting to the RTRS.

Therefore, First Southern violated MSRB Rule G-27.

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

- a censure;
- a \$250,000 fine (\$125,000 of which pertains to the violations of MSRB Rules G-8, G-14 and G-27); and
- An undertaking that, within 180 days of the date of the notice of acceptance of this AWC, a member of Respondent’s senior management who is a registered principal of the firm shall certify in writing that, as of the date of the certification, the firm has remediated the issues identified in this AWC and implemented a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with Securities Exchange Act Rule 15c-1(a)(1), Section 17(a) of the Exchange Act, Exchange Act Rules 17a-3 and 17a-5, FINRA Rule 4511, and MSRB Rule G-8, regarding the issues identified in this AWC. The certification shall include a narrative description and supporting exhibits sufficient to demonstrate Respondent’s remediation and implementation. FINRA staff may request further evidence of Respondent’s remediation and implementation, and Respondent agrees to provide such evidence. Respondent shall submit the certification to Ralph DeSena, Director, at ralph.desena@finra.org, with a copy to EnforcementNotice@finra.org. Upon written request showing good cause, FINRA staff may extend this deadline.

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 it proposes to pay the fine

imposed. Respondent specifically and voluntarily waives any right to claim an inability to pay, now or at any time after the execution of this AWC, the monetary sanction imposed in this matter.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

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 it;
- 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 its acceptance or rejection.

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 action 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 its subject matter 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 right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.
- 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.

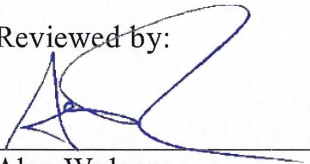
The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that Respondent has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

7/2/25
Date


First Southern, LLC
Respondent

Print Name: William H. Hawk

Title: CEO / President

Reviewed by:

Alan Wolper
Counsel for Respondent
UB Greensfelder LLP
200 West Madison Street
Suite 3300
Chicago, IL 60606-3607

Accepted by FINRA:

July 17, 2025
Date

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


Ralph DeSena
Director
FINRA
Department of Enforcement
200 Liberty Street, 11th Floor
New York, NY 10281-1103

CORRECTIVE ACTION STATEMENT
ON BEHALF OF FIRST SOUTHERN, LLC (CRD NO. 282756)
FINRA MATTER NO. 2021069348401

This Corrective Action Statement is submitted by Respondent First Southern, LLC. It does not constitute factual or legal findings by FINRA, nor does it reflect the view of FINRA or its staff.

Since FINRA commenced the examination that ultimately led to the accompanying AWC, but prior to the acceptance of the AWC, First Southern has taken the following steps to address the deficiencies identified during the examination that led to the issuance of the AWC:

- Revised Reg BI process. Specifically, implemented use of Regulation Best Interest Form at account opening. Additionally, periodic Registered Representative checks are done to review the account opening process and reinforce the use of notes to document meetings with clients.
- Revised New Account Opening Process which includes the revised Form CRS, Regulation Best Interest Disclosure, AML, privacy, margin, trusted contact, and senior investor disclosures.
- Implemented new forms such as a new Alternative Investment Form (suitability and concentration reviews), Commission to Advisory Account Review Form, Pre-Existing Relationship Form, Accredited Investor Verification, Annuity Suitability Form, and penny stock disclosure form.
- Implemented the use of Quest CE for firm element training, and automation to track new hire forms, as well as forms for outside business activities, private securities transactions, OBA, PST, social media, new investment accounts, gift and gratuities, political contributions, and other required disclosures by Representatives.
- Lexis/Nexis has been implemented for enhanced due diligence for AML, CIP and OFAC reviews.
- The Firm has also enhanced its procedures by implementing an AML monitoring system called Actimize through its clearing firm that attempts to detect suspicious activity regarding wire and check activity in customer accounts.
- Transitioning to new surveillance system. The firm is currently using Investedge to attempt to detect sales practices issues. That is being transitioned to Sycamore, which is building out a new compliance platform which will include advisor management, commissions and payroll system, supervisory workflow process for account opening and other compliance reviews, and enhanced surveillance reports based on the firm's

trading data. This will aid in the firm's efforts to review for Regulation Best Interest suitability.

- Updated the Written Supervisory Procedures manual to reflect all the firm's current processes and systems.
- Performed an entire review of every account opened at the firm that may be missing suitability information as required pursuant to FINRA Rules 4512 and 2111 and have collected missing information for each account.
- Performing a weekly review of all new accounts opened in the prior week to ensure the Registered Representative timely delivered to the customer Form CRS and Regulation Best Interest Disclosure.
- The Firm reviews the potential balances and records the maximum possible haircut on possible takedowns in the comments for haircuts on monthly FOCUS filings to include Part IIA and the Quarterly OBS filings for any underwriting in which the firm is required to take open contractual commitment haircuts.
- The Firm has appointed a Designated Principal internally who monitors the reporting of MSRB reporting throughout the day to ensure accurate reporting. The same individual also reviews the RTRS monthly reports. The Designated Principal reports to the CCO and CEO monthly.
- The Firm has appointed a person internally who monitors TRACE reporting throughout the day to ensure its accuracy. This individual also reviews the RTRS monthly reports. The Designated Principal reports to the CCO and CEO monthly.
- The Firm performs a quarterly review of Registered Representatives' activities for all accounts, including to determine whether they are documenting their notes for Regulation Best Interest purposes, which should include discussions with clients and recommendations of investments.
- Formal Training on Regulation Best Interest, Senior Investors, Suitability, and Enhanced AML reviews have been provided to Registered Representatives and all other associated people.
- The Firm's WSPs have been updated regarding the handling of an account in the event of the death of a customer.
- The Firm has completed its internal inspection of its main office for 2024 and implemented a branch office inspection cycle per FINRA rules, which has been updated in our procedures.

- The firm has updated its procedures regarding the remote branch audit inspection program.
- The firm has updated its Cyber Security Procedures and implemented an Incident Response Plan.
- In addition, more recently, the firm replaced its Chief Compliance Officer – i.e., the individual to whom responsibility for the ongoing review and maintenance of the WSPs had been delegated – with the person who had previously been engaged on a consulting basis to undertake the task of reviewing and, as necessary, amending the WSPs to make them compliant.