

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. E062005004301

TO: Department of Enforcement
NASD

RE: Capital Institutional Services, Inc.
CRD No. 7551

Pursuant to Rule 9216 of NASD's Code of Procedure, Capital Institutional Services, Inc. ("CISI" or the "firm") submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described in Part II below. This AWC is submitted on the condition that, if accepted, NASD will not bring any future actions against Respondent alleging violations based on the same factual findings.

The Respondent understands that:

1. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by NASD's Department of Enforcement and National Adjudicatory Council ("NAC") Review Subcommittee or Office of Disciplinary Affairs ("ODA"), pursuant to NASD Rule 9216;
2. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against Respondent; and
3. If accepted:
 - a. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by NASD against it;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about Respondent's disciplinary record;
 - c. NASD, may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-2; and
 - d. 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. Nothing in this provision affects Respondent's testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

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The Respondent also understands that its experience in the securities industry and disciplinary history may be factors that will be considered in deciding whether to accept this AWC. That experience and history are as follows:

Capital Institutional Services, Inc. is currently, and was during all times relevant hereto, a member of NASD and registered as a broker/dealer with the Securities and Exchange Commission. The firm became registered with NASD in February 1978. The firm's disciplinary history includes the following:

On June 25, 2004, NASD accepted a Letter of Acceptance, Waiver and Consent (C06050020), whereby Capital Institutional Services, Inc. was fined \$5,000 for violations of MSRB Rule G-14.

On March 11, 2004, NASD accepted a Letter of Acceptance, Waiver and Consent (CMS040029), whereby Capital Institutional Services, Inc. was fined \$5,000 for violations of NASD Rules 2110 and 6955(a).

On September 18, 2002, NASD accepted a Letter of Acceptance, Waiver and Consent (CMS020168), whereby Capital Institutional Services, Inc. was censured and fined \$6,000 for violations of NASD Rules 2110 and 6130(b).

On March 27, 2000, NASD accepted a Letter of Acceptance, Waiver and Consent (CMS000035), whereby Capital Institutional Services, Inc. was censured and fined \$7,500 for violations of NASD Rules 2110, 3010 and 4632.

I.

WAIVER OF PROCEDURAL RIGHTS

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

- A. To have a Formal Complaint issued specifying the allegations against it;
- B. To be notified of the Formal 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 NAC and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the Respondent 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. Respondent further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of 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.

II.

ACCEPTANCE AND CONSENT

- A. The 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 NASD, or to which NASD 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 NASD:

1. During the period from November 2004 through February 2005, Capital Institutional Services, Inc., failed to report, or to accurately report, to TRACE at least 161 out of 500 corporate bond transactions. Specifically, the firm failed to report 81 corporate bond trades to TRACE, and incorrectly reported the firm's capacity for an additional 80 corporate bond transactions, by reporting them as principal trades to TRACE, when in fact the trades were agency transactions.

Such acts, practices, and conduct constitute separate and distinct violations of NASD Conduct Rule 2110 and NASD Marketplace Rule 6230 by Capital Institutional Services, Inc.

2. During the period from February 2004 through November 2004, Capital Institutional Services, Inc., failed to accurately report to the MSRB at least eight out of twenty-two municipal securities transactions. Specifically, the firm failed to report the customer side of seven transactions and the dealer side of one transaction.

Such acts, practices, and conduct constitute separate and distinct violations of MSRB Rule G-14 by Capital Institutional Services, Inc.

- B. Respondent also consents to the imposition, at a maximum, of the following sanctions:

A censure and a monetary fine in the amount of \$20,000.

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

III.

OTHER MATTERS

- A. Respondent understand that it 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 NASD, nor does it reflect the views of NASD or its staff.
- B. Respondent agrees to pay any monetary sanctions imposed on it upon notice that this AWC has been accepted and that such payments are due and payable and has attached an Election of Payment form showing the method by which it proposes to pay any fine imposed.
- C. Respondent specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

Respondent certify that it has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it, and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce it to submit it.

4/26/06
Date

Capital Institutional Services, Inc.

By: Tim R. Hall
(signature)

Name: Tim R. Hall
(printed name)

Title: CEO & Treasurer

Reviewed by:

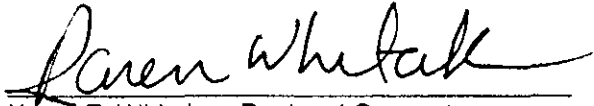
Walter P. Hall
Counsel for Respondents

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Accepted by NASD:

05/03/2006
Date

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



Karen E. Whitaker, Regional Counsel
NASD Department of Enforcement
12801 N. Central Expressway, Suite 1050
Dallas, TX 75243
Phone: 972-716-7610; Fax 972-716-7646

NASD District Director

Virginia F. M. Jans
NASD, District 6
12801 N. Central Expressway, Suite 1050
Dallas, TX 75243
Phone: 972-701-8554

Corrective Action Statement
Letter of Acceptance, Waiver and Consent No. E062005004301

Capital Institutional Services, Inc. ("CAPIS") has undertaken several major changes to its systems and supervisory structure to improve the firm's compliance and oversight with respect to trade reporting for fixed income securities, including both MSRB and TRACE reporting. During the review period of the examination which preceded the AWC, CAPIS' fixed income department operated out of the firm's New York City OSJ and was supervised by Michele Mohlo, a Series 24 principal. Fixed income order tickets were created and maintained by hand, and information was manually input into the TRACE system through the NASD TRACE website.¹ Since that time, at a substantial cost to the firm, CAPIS has completely automated its fixed income trading and trade reporting process, moved its fixed-income department to the firm's main office in Dallas, Texas and hired a new Series 24 principal to oversee fixed income trading and trade reporting.

The automation of CAPIS' fixed income trading and trade reporting has vastly reduced the opportunity for human error to affect the trade reporting process. All orders in fixed income securities are now entered directly into SST, CAPIS' order management system. For TRACE reportable securities, SST automatically transmits a trade report to TRACE. The relocation of the fixed income desk from New York to Dallas (at significant expense to the firm) allows CAPIS' Compliance Department, which is located in Dallas, greater ability to assist the fixed income principal in overseeing TRACE and MSRB trade reporting. In this regard, information from CAPIS' SST system concerning trades in TRACE eligible securities is compared to trade data submitted to TRACE on a daily basis. In addition, the Compliance Department reviews CAPIS' TRACE Report Cards on a monthly basis. With respect to MSRB trade reporting, CAPIS' SST MSRB blotter is compared to the MSRB's Real-Time Transaction Reporting System ("RTRS") on a weekly basis. The Compliance Department also reviews the RTRS Lateness Report and Compliance Data Report on a monthly basis.

Taken together, the changes discussed above have substantially improved CAPIS' supervisory structure regarding TRACE and MSRB trade reporting and have greatly reduced or eliminated the possibility of future fixed income reporting problems.

This Corrective Action Statement is submitted by CAPIS. It does not constitute factual or legal findings by NASD, nor does it reflect the views of NASD, or its staff.

¹ Municipal securities trades executed by CAPIS were, and are, reported to the MSRB by CAPIS' clearing firm, Merrill Lynch, Pierce, Fenner & Smith, Inc. (formerly Broadcor Capital Corp.).