

**NASD REGULATION, INC.
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. E062005008401**

TO: Department of Enforcement
NASD Regulation, Inc.

RE: Frost Brokerage Services, Inc.
Member Firm
CRD No. 17465

Pursuant to Rule 9216 of the National Association of Securities Dealers, Inc. ("NASD") Code of Procedure, Frost Brokerage Services, Inc., ("Respondent") 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 Regulation, Inc. will not bring any future actions against Respondent alleging violations based on the same factual findings.

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 Regulation, Inc.'s Department of Enforcement and National Adjudicatory Council ("NAC"), 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 the NASD against it;
 - b. this AWC will be made available through NASD Regulation, Inc.'s public disclosure program in response to public inquiries about Respondent's disciplinary record;
 - c. NASD Regulation, Inc. 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 positions in litigation in which the NASD is not a party.

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

During all periods mentioned herein, Frost Brokerage Services, Inc. was a registered broker dealer with the Securities and Exchange Commission and a member of the NASD, which registration and membership remain in effect. For the past five years, the firm has no relevant disciplinary history.

I.

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waives the following rights granted under the 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, 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. 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 July 1, 2005 to September 30, 2005, Respondent Frost Brokerage Services, Inc. effected 256 municipal securities transactions and the following deficiencies occurred:
 - a. sixty-nine transactions were reported late to the MSRB;
 - b. eight transactions were reported with the incorrect trade time;
 - c. eighty-one transactions were reported without the special price reason code which would have identified the transaction as a "when issued" trade;
 - d. one transaction was reported with an inaccurate trade date; and
 - e. one transaction was reported without a price;

Such acts, practices, and conduct constitute separate and distinct violations of MSRB Rule G – 14 by Respondent Frost Brokerage Services, Inc.

2. During the period from July 2005 to September 2005, Frost Brokerage Services, Inc. failed to supervise the conduct of its municipal securities activities, and failed to adopt, maintain, and enforce written supervisory procedures reasonably designed to ensure compliance with the municipal transaction reporting requirements of MSRB Rule G-14.

Such acts, practices, and conduct constitute separate and distinct violations of MSRB Rule G – 27 by Respondent Frost Brokerage Services, Inc.

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

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

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

Letter of Acceptance, Waiver and Consent
E062005008401/Frost Brokerage Services, Inc.

Accepted by NASD:

12/15/2006
Date

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

George C. McGuigan, Jr. / *by rjp*
George C. McGuigan, Jr.
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December 1, 2006
Frost Brokerage Services, Inc.
Exam or Investigation No. E0620050084

Corrective Action Statement

1. Frost Brokerage receives e-mails from MSRB telling us when a trade is affirmed or not affirmed. This allows us to immediately address any reporting issues internally as well as with other dealers and our clearing broker.
2. Since the review period we have provided written instructions to our clearing broker, in accordance with the guidelines provided by the MSRB, to suppress transactions where we are not acting as broker/dealer.
3. A registered representative now inputs all of the municipal trades into the system rather than clerical staff. This has resulted in an improvement in our statistics.
4. Our CCO monitors the MSRB RTRS web-site and reviews the reporting activity regularly.
5. We revised our Written Supervisory Procedures.
6. Our statistics now are comparable to industry statistics and we continue to strive for improvement.

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