

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. E062005013001**

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REGISTRATION & DISCLOSURE

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

RE: Penson Financial Services, Inc.
Member Firm
CRD No. 25866

Pursuant to NASD Rule 9216 of FINRA's Code of Procedure, Penson Financial 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 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

During all periods mentioned herein, Penson Financial Services, Inc. was a registered broker dealer with the Securities and Exchange Commission and a member of the FINRA (f/k/a NASD), which registration and membership remain in effect. The firm's relevant disciplinary history for the past five years consists of the following:

On June 20, 2003, FINRA (f/k/a NASD) accepted an AWC (Case No. C06030011) whereby the firm was censured, fined \$25,000.00, and ordered to retain an independent outside consultant to conduct a review of, and prepare a written report and make recommendations as to the adequacy of the firm's supervisory and compliance policies and

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procedures and its system for applying such procedures, for failing to establish and maintain a supervisory system reasonably designed to address the processing of letters of authorization received from two of its correspondent firms, and including but not limited to the establishment and maintenance of written procedures as to the processing of letters of authorization, all in violation of NASD Conduct Rules 2110, 3010(a), and 3010(b).

On October 6, 2005, FINRA accepted an AWC (Case No. C06050007) whereby the firm was censured and fined \$50,000 for failing to adequately fund its reserve account in violation of SEC Rule 15c3-3 and NASD Conduct Rule 2110, and for failing to timely file reports of foreign bank and financial accounts in violation of NASD Conduct Rules 2110 and 3011.

OVERVIEW

Penson Financial Services, Inc. hypothecated customer securities, without customer consent, and commingled the customer securities with non-customer security positions in order to collateralize bank loans.

THE VIOLATIONS

During the period from July 11, 2003 to June 30, 2004, Penson Financial Services, Inc. permitted, without customer consent, the hypothecation of 83 customer securities positions under circumstances that permitted the commingling of these security positions with non-customer security positions in order to collateralize bank loans. During the aforementioned period, Penson Financial had received bank loans from a third party ranging in amounts from \$19 million to \$55 million. At various times during this period, the value of the securities hypothecated without the customers' consent ranged in value from \$3,000 to \$5 million.

Such acts, practices, and conduct constitute separate and distinct violations of SEC Rules 8c-1 and 15c2-1, and NASD Conduct Rule 2110 by Respondent Penson Financial Services, Inc.

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

A censure and monetary fine of \$20,000 against Respondent Penson Financial Services, Inc.

Respondent specifically and voluntarily waives any right to claim that Respondent is unable to pay, now or at any time hereafter, the monetary sanction(s) imposed in this matter. Respondent has submitted an Election of Payment form showing the method by which Respondent proposes to pay the fine imposed.

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 Formal Complaint issued specifying the allegations against Respondent;
- 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 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 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 NASD Rule 9143 or the separation of functions prohibitions of NASD 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 NASD 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 response to public inquiries about Respondent's disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-3; 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.
- 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

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E062005013001/ Penson Financial Services, Inc.

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.

Respondent certifies that Respondent 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 Respondent to submit it.

Penson Financial Services, Inc.

9/11/07
Date

By: Philip A. Pendergast

Name: Philip A. Pendergast

Title: EV?

Reviewed by:

Robert Marshallson
Attorney Name
Counsel for Respondent

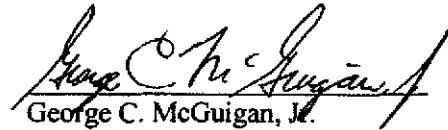
Firm Name Morgan, Lewis & Bockius LLP
Address 101 Park Ave.
City/State/Zip New York, NY 10178
Phone Number 212 309-6000

Letter of Acceptance, Waiver and Consent
E062005013001/ Penson Financial Services, Inc.

Accepted by FINRA:

9/24/2007
Date

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



George C. McGuigan, Jr.
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