STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT

IN THE MATTER OF: 1st GLOBAL CAPITAL CORP.	FILE NO. 0600642

CONSENT ORDER OF CENSURE

TO THE RESPONDENT: 1st Global Capital Corp. (B/D#: 30349)
8150 N. Central Expressway
Suite 500
Dallas, Texas 75206

C/o John R. Short, Attorney At Law
Blackwell Sanders, LLP
720 Olive Street Suite 2400
St. Louis, Missouri 63101

WHEREAS, Respondent on the 14th day of September, 2007 executed a certain Stipulation To Enter Consent Order Of Censure ("Stipulation"), which hereby is incorporated by reference herein.

WHEREAS, by means of the Stipulation, Respondent has admitted to the jurisdiction of the Secretary of State and service of the Notice of Hearing of the Secretary of State, Securities Department, dated July 13, 2007, in this proceeding (the "Notice") and Respondent has consented to the entry of this Consent Order of Censure ("Consent Order").

WHEREAS, by means of the Stipulation, the Respondent acknowledged, without admitting or denying the truth thereof, that the following allegations contained in the Notice of Hearing shall be adopted as the Secretary of State's Findings of Fact:

1. That at all relevant times, the Respondent was registered with the Secretary of State as a dealer in the State of Illinois pursuant to Section 8 of the Act.

2. That on November 15, 2006 the United States Securities and Exchange Commission (SEC) entered Order INSTITUTING ADMINSTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, MAKING FINDINGS, AND IMPOSING REMEDIAL SANCTIONS AND A CEASE-AND-DESIST ORDER PURSUANT TO SECTIONS 15(b) AND 21C OF THE SECURITIES EXCHANGE ACT OF 1934(Order) in Administrative Proceeding File No. 3-12479 against the Respondent which imposed the

following sanctions:

a) censured;

b) cease and desist from committing or causing any violations and any future violations of Section 15B(c)(1) of the Exchange Act, including

i. failing to deal fairly with all persons and not engage in any deceptive, dishonest or unfair practice under MSRB Rule G-17, and

ii. recommending a municipal securities transaction without reasonable grounds for believing that the recommendation is suitable, based upon information about the security that is available from the issuer of the security or otherwise, and based on the facts disclosed by or otherwise known about the customer, in violation of MSRB Rule G-19; and

c) civil money penalty in the amount of $100,000.

3. That the Order listed the following background information:

The Respondent is a broker-dealer registered with the Commission pursuant to Section 15(b) of the Exchange Act, with its principal offices in Dallas, Texas. The Respondent has a network of over 1,200 registered representatives ("RRs") located throughout the country. The vast majority of the Respondent's RRs are certified public accountants or tax accountants.

The Firm derives the majority of its revenue from the sale of mutual fund products, including tax-advantaged qualified tuition savings plans, commonly known as Section 529 College Savings Plans ("529 Plans"). During January 2002 through September 2003, the Respondent sold 529 Plan units totaling over $45 million. In fiscal 2003, 529 Plan unit sales represented approximately 1% of the Firm's total revenues.

4. That the Order found:

SUMMARY

a. This matter involves violations of Municipal Securities Rulemaking Board ("MSRB") rules by the Respondent in connection with its offer and sale of investments in 529 Plan units. Between January 2001 and 2004, the Respondent recommended and sold investments in particular classes of 529 Plan units without necessarily having reasonable grounds to believe that its recommendations were suitable, based upon 529 Plan fee structures and customer needs and objectives, and by failing to

deal fairly with its customers in connection with sales of 529 Plan unit investments. As a result, the Respondent willfully violated MSRB Rules G-17 and G-19, and Exchange Act Section 15B(c)(1), by making unsuitable recommendations in connection with the offer and sale of 529 Plan investments.

FACTS

529 Plan Investments

b. States generally organize their 529 Plans as trusts, either directly through legislation or by delegating authority to a state agency to form the trusts that issue 529 Plan units. Individual investors (usually called account owners) invest for their beneficiaries' qualifying higher education costs by purchasing units issued by these trusts. In turn, these trusts generally invest their assets in pooled investment vehicles (most commonly mutual funds). Because these trusts are sponsored by state governments or agencies, the units they issue are municipal securities.

c. Under Section 529 of the Internal Revenue Code, earnings on 529 Plan contributions grow federal tax-free, and withdrawals are free of federal tax if used for qualified expenses, such as tuition, fees, room, board, textbooks and other education expenses at qualified higher-education institutions. If an account holder uses a withdrawal for non-qualified expenses, however, the account holder must pay ordinary income taxes and a 10% penalty on the earnings.

d. 529 Plan contributions are treated as gifts to the named beneficiary for gift tax purposes, but they qualify for the annual gift tax exclusion (currently $12,000 or less per year). As a result, investors' annual contributions to 529 Plans often are $12,000 or less.

e. Investors may acquire interests in 529 Plans either directly from the state trust or a state agency acting on its behalf (in which case the plan is a "direct-sold 529 Plan"), or from a financial intermediary, such as a broker, dealer, or bank municipal securities dealer, or other bank (in which case the plan is a "broker-sold 529 Plan"). 529 Plans generally invest in professionally-managed portfolios that hold shares in several mutual funds or other pooled investment vehicles. The underlying investment options in 529 Plans vary from plan to plan, with some plans offering a wide range of funds and others offering more limited choices.

529 Plan Expenses and Unit Classes

f. All 529 Plans include fees and expenses, which vary not only from plan to plan, but also within a single 529 Plan. The offering document for a 529 Plan, which is often called a program description or plan description, describes the fees and expenses associated with the 529 Plan. 529 Plan fees may include one-time enrollment or application fees, annual (fixed-dollar) account maintenance fees, sales loads, deferred sales charges, program management and administrative fees (usually asset-based), and asset-based distribution fees, in addition to the fees and expenses of the underlying mutual funds. In some instances, it also is necessary to review the prospectuses for the underlying mutual funds in 529 Plans to ascertain all applicable fees and expenses.

g. Broker-sold 529 Plans often use load-waived shares of mutual funds as their underlying investments, and impose sales charges and asset-based distribution fees (virtually identical to Rule 12b-1 fees paid by many mutual funds) at the 529 Plan level. These 529 Plans usually offer classes of units that emulate the share classes at a load mutual fund (e.g., Class A units that charge a front-end load, Class B units that charge a deferred sales charge, Class C units that charge no load but feature relatively higher asset-based distribution fees, etc.). As a result of these sales loads and additional fees, broker-sold 529 Plans often cost more than direct-sold plans.

h. Many broker-sold 529 Plans also emulate the "breakpoints" offered by mutual fund complexes (usually following the breakpoint schedule of the fund complex that manages the underlying funds available through the particular 529 Plan). In reaching a breakpoint, an investor is often permitted to aggregate transactions made by certain family members and transactions in certain other related account, e.g., 529 Plan accounts held by the same account owner, but with different beneficiaries. 529 Plans generally disclose the schedule of available breakpoint and how an investor may qualify for breakpoint in their offering documents. The prospectuses for the mutual funds underlying a 529 Plan, which are incorporated by reference in the 529 Plan offering documents, may also contain relevant breakpoint information.

i. The class of 529 Plan units that an investor purchases determines the selling RR's compensation structure and may materially affect the up-front costs and/or long-term investment returns of the investor. Sales loads, deferred sales charges, and other fees and expenses vary widely not only from plan to plan, but also among the classes of units offered by a single plan.

j. Additional fees and expenses associated with 529 Plans, such as program or administrative fees, also may vary based on unit class. For example, under one 529 Plan sold by the Respondent, annual program fees for Class B and Class C units were 85 basis points higher than the program fees for Class A units.

k. Typically, units denominated as Class A charge a front-end load, while other classes, such as Class B and Class C, have different sales charge and expense characteristics. A "front-end load" is a sales charge that certain principal underwriters or distributors charge to the investor at the time an investor buys units. When the purchase is through a broker-dealer, the fund's principal underwriter or distributor pays a part of the front-end load amount to the broker-dealer.

l. Unlike Class A units, Class B units do not carry a front-end load. Rather, Class B units generally carry "contingent deferred sales charges" ("CDSCs"), which means that a gradually declining "load" is charged to investors if units are redeemed within a certain number of years, generally five to nine, after purchase.

m. Class C units typically do not charge a front-end load, and generally impose a significantly lower CDSC than Class B units (or none at all). Like Class B units, Class C units generally charge relatively high asset-based distribution fees. Class C units, however, typically do not convert to Class A units and therefore continue to impose higher distribution fees for as long as the investor holds the units.

n. Because of the unique cost structures associated with 529 Plan units, which may not correspond to sales of mutual fund shares, careful analysis of the costs of differing classes of 529 Plan units is necessary. For example, Class C mutual fund shares typically are expensive to own over a long period because of the relatively high distribution fees, but in one popular 529 Plan sold by the Respondent in mid-2002, Class C 529 Plan units were the least expensive alternative for certain plan investments for over 17 years. Under another 529 plan, Class C units were the least expensive investment in some funds for the first four years, and Class B units were the least expensive unit class thereafter; Class A units were never the least expensive class of unit class for this plan investment, even with a very lengthy holding period. Broker-dealers recommending a 529 Plan investment to a customer must analyze the plan carefully to compare the relative costs of the different classes of units before recommending that a customer purchase a particular unit class.

Withdrawal Dates and Unit Class Selection

o. The anticipated number of years until withdrawal is a critical factor in determining the appropriate class of units class for a 529 Plan investment. See MSRB Fair Practice Notice, Application of Fair Practice and Advertising Rules to Municipal Fund Securities (May 14, 2002) (noting, in discussing the application of MSRB rules to sales of 529 Plans, the importance of the number of years until withdrawal in determining which unit class would be suitable for a particular customer) ("MSRB 529 Plan Notice").

p. 529 Plan investors typically have a relatively precise time horizon for their investment, because the age of the beneficiary and their likely college entry date are known. As a result, a broker-dealer making recommendations to customers concerning 529 Plan units can determine with relative precision the class of units offered of the particular fund [or funds] that is more economically beneficial to a particular customer.

q. In recommending 529 Plan investments, broker-dealers implicitly represent to their customers that the recommended class of units class is suitable, given, among other things, the age of the child. Where the beneficiary of a 529 Plan is a young child, the effect of higher annual, ongoing expenses on the performance of the investment may be significant, even where the initial investment is relatively small.

The Respondent's Sales of 529 Plan Investments

r. The Respondent recommended and sold to its customers classes of 529 Plan units where it lacked reasonable grounds for believing that the investment in the particular unit class was suitable, based upon 529 Plan fee structures and customer needs, particularly the beneficiary's age. The Commission staff analyzed 101 accounts (from over 4,000 529 Plan accounts), and in 69 of the accounts analyzed, 151 of the Respondent's RRs failed to recommend the lowest-cost class of units that the Respondent offered of the particular fund [or funds] in the customer's 529 Plan. The difference between the value of the class of units purchased and the value of the lowest-cost unit class available, at the end of the expected holding period, ranged from less than 1% to over 10%. In 33 of the 69 accounts analyzed, the additional cost to investors (including foregone earnings) equaled or exceeded 5% of the amount of the initial investment (assuming 10% growth).

s. In some instances, the Respondent sold classes of units other than the lowest-cost unit class that the Respondent offered of the particular fund [or funds] in the customer's 529 Plan at least in part because the Respondent failed to evaluate adequately the substantial effect of an anticipated lengthy holding period on comparative unit class costs, particularly for small investments. For example, one customer of the Respondent invested $11,000 each for five-month old twins in Class C units of a popular 529 Plan investment. If he had purchased Class A units in the same investment, his investment for each child would be worth an estimated $4,100, or 9%, more than the value of Class C units when the children reach college age, or over 37% of the initial investment amount (based on 10% earnings growth assumptions). Similarly, another customer invested $6,000 each for two and a half year old triplets in Class B units of a different Alliance College Bound Fund mutual fund. Had this customer purchased Class A units in the same investment, each child's account would have been worth almost $400, or 1.75%, more than the value of Class B units when the children reach college age, or over 6.3% of the initial investment amount. A third customer invested $4,000 for a nineteen-month old in Class C units of a different 529 Plan. If this customer had purchased Class A units in the same investment instead, it would be worth an estimated $1,200, or almost 9%, more than the value of Class C units when the child reaches college age, or over 29% of the initial investment amount. Such differences in performance may be significant, particularly to parents with limited resources.

The Respondent's Policies and Procedures

t. Prior to July 2002, the Respondent's written supervisory procedures simply advised RRs that in the recommendation of mutual funds, they "should match the customer's objectives with the stated objective and investment strategy of the recommended fund."

u. Beginning in July 2002, the Respondent's written supervisory procedures advised RRs that, in recommending mutual funds in general, they are charged with assisting the client in determining what investment vehicle best meets their needs and objectives. The written supervisory procedures specified that the RRs should keep in mind, among other things, the customer's investment time horizon and the charges associated with the fund. In a section on mutual fund share class distinctions, the written supervisory procedures advised RRs that they were obligated to know the specifics regarding any mutual fund they sold, and that they should

ensure that they discussed the different mutual fund share classes in detail with the client. The Respondent's written supervisory procedures section on 529 Plans stated that, in recommending such investments, the RR was obligated to determine suitability, and that they should consider and discuss with the customer, among other things, the associated fees and expenses.

v. Beginning in approximately September 2002, the Respondent issued specific 529 Plan Suitability Guidelines that advised RRs to make sure the client is fully informed of the various fees and expenses and how they can affect performance of the investment."

w. The Respondent's policies and procedures generally advised RRs of their responsibility to recommend suitable investments, including 529 Plan investments. At least until early 2004, however, the Firm's policies and procedures failed to explain adequately the economic impact of ongoing expenses and breakpoint discounts associated with purchases of different classes of 529 Plan units. Further, at least until early 2004 the Respondent did not provide adequate guidelines on comparing the costs of the respective classes of 529 Plan units and evaluating the effect of those differing costs on the performance of the investment.

x. The Respondent's supervisory procedures were inadequate to determine whether its RRs were evaluating the suitability of their recommendations of particular classes of 529 Plan units in light of the 529 Plan structure and fees and the customers' objectives and needs, particularly the beneficiary's age. Further, to the extent the Firm had procedures, they were ineffectively implemented for this purpose.

y. The Respondent relied primarily on two procedures to detect and prevent unsuitable recommendations of unsuitable classes of 529 Plan units. First, the Firm relied on supervisory reviews of each 529 Plan unit purchase for suitability.

z. The Respondent's written supervisory procedures, however, failed to provide adequate guidance on when suitability reviewers should perform steps such as calculating comparative expenses or contacting RRs or customers in analyzing 529 Plan unit class and other issues. The 15t Global reviewers, moreover, had limited training and experience for this function, and the reviews were perfunctory. In fact, the primary reviewer failed to understand that 529 Plans have offering documents separate from, and generally in addition to, the prospectuses for the underlying mutual funds. As a result, on some occasions he did not utilize the appropriate

information concerning fees and costs in reviewing 529 Plan transactions for suitability. As a result, the Respondent suitability reviews were ineffective in preventing and detecting unsuitable unit class transactions. The second procedure that 1st Global relied upon to prevent and detect unsuitable recommendations of classes of 529 Plan units was a Mutual Fund Disclosure Form ("MFDF"). After August 31, 2002, 1st Global procedures required that a MFDF be provided to each customer opening a new account and to customers whose aggregate purchases of Class B or C units equaled or exceeded $100,000.' These requirements applied to 529 Plan investments. The MFDF included a "cost to purchase" section that generally described the features of Class A, B and C shares and had blanks for the RR to fill in with the specific fees and expenses of the share class.

aa. The Respondent, however, did not require its RRs to complete blanks on the MFDF regarding the fees and expenses of 529 Plan unit classes that the client did not purchase. As a result, the MFDF, even if completed as required by the Respondent, did not establish that the Respondent's RRs were identifying, evaluating and disclosing to the customer the comparative costs of the 529 Plan unit classes or the impact of ongoing fees and expenses on the performance of the recommended investments. Further, the Respondent's RRs sometimes failed to obtain an MFDF as required, failed to fill in any of the blanks in the cost-to-purchase section of the form, or incorrectly disclosed the amounts of fees and expenses in that section. The MFDF thus was ineffective to detect and prevent the sale of unsuitable classes of 529 Plan units.9

LEGAL ANALYSIS

bb. MSRB Rule G-17 requires municipal securities dealers to deal fairly with all persons and not to engage in any deceptive, dishonest or unfair practice.

cc. MSRB Rule G-19 provides that, in recommending a municipal securities transaction, a dealer shall have reasonable grounds for believing that the recommendation is suitable, based upon information about the security that is available from the issuer of the security or otherwise, and based upon the facts disclosed by or otherwise known about the customer.

dd. Prior to August 31, 2002, lst Global only required an MFDF to be completed where a customer was switching from one mutual fund investment to another. lst Global continued to require that an MFDF be completed under these circumstances.

ee. Section 15B(c)(1) of the Exchange Act provides that no broker, dealer or municipal securities dealer, using the instrumentalities of interstate commerce, shall effect transactions in, or induce or attempt to induce the purchase or sale of, any municipal security in contravention of any MSRB rule.

ff. Because the Respondent and its RRs did not adequately understand and evaluate the comparative costs of the various classes of 529 Plan units they sold, they lacked reasonable grounds to believe that their recommendations were suitable, based upon 529 Plan fee structures and customer needs and objectives. The Respondent willfully violated MSRB Rules G-17 and G-19 and Exchange Act Section 15B(c)(1) by recommending 529 Plan units to the Firm's customers when it did not necessarily have reasonable grounds to believe that the recommendations were suitable and by failing to deal fairly with its customers in connection with sales of 529 Plan units.

5. That Section 8.E(1)(k) of the Act provides, inter alia that the registration of a dealer may be revoked if the Secretary of State finds that such dealer has any order entered against it after notice and opportunity for a hearing by the United States Securities and Exchange Commission arising from any fraudulent or deceptive act or a practice in violation of any statute, rule, or regulation administered or promulgated by the agency.

6. That the Respondent had notice and opportunity to contest the issues in controversy but chose to resolve the matter with the SEC.

WHEREAS, by means of the Stipulation Respondent has acknowledged, without admitting nor denying the averments, that the following shall be adopted as the Secretary of State's Conclusion of Law:

That by virtue of the foregoing, the Respondent's registration as a dealer in the State of Illinois is subject to revocation pursuant to Section 8.E(1)(k) of the Act.

WHEREAS, by means of the Stipulation Respondent has acknowledged and agreed that it shall be censured.

WHEREAS, by means of the Stipulation Respondent has acknowledged and agreed that it shall be levied costs incurred during the investigation of this matter in the amount of Two Thousand Five Hundred dollars ($2,500.00). Said amount is to be paid by certified or cashier's check, made payable to the Office of the Secretary of State, Securities Audit and Enforcement Fund.

WHEREAS, by means of the Stipulation Respondent has acknowledged and agreed that it has submitted with the Stipulation a certified or cashier's check in the amount of Two Thousand Five Hundred dollars ($2,500.00) to cover costs incurred during the investigation of this matter. Said check has been made payable to the Office of the Secretary of State, Securities Audit and Enforcement Fund.

WHEREAS, the Secretary of State, by and through his duly authorized representative, has determined that the matter related to the aforesaid formal hearing may be dismissed without further proceedings.

NOW THEREFORE IT SHALL BE AND IS HEREBY ORDERED:

1. The Respondent shall be censured.

2. The Respondent is levied costs of investigation in this matter in the amount of Two Thousand Five Hundred dollars ($2,500.00), payable to the Office of the Secretary of State, Securities Audit and Enforcement Fund, and on September 4, 2007 has submitted Two Thousand Five Hundred dollars ($2,500.00) in payment thereof.

3. The formal hearing scheduled on this matter is hereby dismissed without further proceedings.

ENTERED This 18th day of September 2007.

Jesse White

JESSE WHITE
Secretary of State
State of Illinois

NOTICE: Failure to comply with the terms of this Order shall be a violation of Section 12.1) of the Illinois Securities Law of 1953 [815 ELCS 5] (the Act). Any person or entity who fails to comply with the terms of this Order of the Secretary of State, having knowledge of the existence of this Order, shall be guilty of a Class 4 felony.