

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. *** 20050000962-01**

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

RE: Southwest Securities, Inc., Respondent
Broker-Dealer
CRD No. 6220

Pursuant to NASD Rule 9216 of the FINRA Code of Procedure, Respondent Southwest Securities, Inc. ("SWST" 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 below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

In connection with matters 20050000962, 20050017986, 20060055557 and 20060055563, the staff of FINRA's Department of Market Regulation (the "staff") conducted a review of the firm's compliance with regulatory requirements for trade reporting of equity securities transactions during the periods January 1, 2004 through April 30, 2004; January 1, 2005 through April 30, 2005; and January 1, 2006 through April 30, 2006. In connection with matter 20050013802, the staff conducted a review of the firm's compliance with its obligations to provide best execution for its customers' equity securities transactions during the period January 1, 2005 through March 31, 2005. In connection with matter 20050023704, the staff conducted a review of transactions reported by the firm to the Trade Reporting And Compliance Engine ("TRACE") during the period April 1, 2005 through July 30, 2005 for compliance with NASD's rules and regulations relating to corporate bond trade reporting. In connection with matter 20050034093, the staff conducted a review of the firm's compliance with requirements set out by the Municipal Securities Rulemaking Board ("MSRB") with respect to the reporting of municipal securities transactions during the period April 1, 2005 through July 30, 2005. The staff also reviewed the firm's supervisory system and written supervisory procedures concerning timely reporting of municipal securities transactions.

- A. The firm 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:

20050000962 (includes 20050013802,
20050017986, 20050023704,
20050034093, 20060055557
and 20060055563) (GMB/TSG)

000017073 2008

BACKGROUND

The firm has been a member of FINRA (formerly known as NASD) since May 30, 1972 and its registration remains effective. The firm has the following relevant disciplinary history:

- On June 30, 2006, an AWC became final pursuant to which SWST was censured and fined, in part, \$25,000 for violations of NASD Marketplace Rule 6230 and NASD Conduct Rule 2110.

FACTS AND VIOLATIVE CONDUCT

Matters 20050000962, 20050017986, 20060055557 and 20060055563

1. With respect to 1,551 brokerage orders received by SWST during the period January 1, 2004 through April 30, 2004; with respect to 1,454 brokerage orders received by SWST during the period January 1, 2005 through April 30, 2005; and with respect to 1,057 brokerage orders received by SWST during the period January 1, 2006 through April 30, 2006, the firm failed to preserve for a period of not less than three years, the first two in an accessible place, the memorandum of each such order. The conduct described in this paragraph constitutes separate and distinct violations of NASD Conduct Rule 3110 and SEC Rule 17a-4.
2. With respect to 30 brokerage orders received by SWST during the period January 1, 2004 through April 30, 2004 and with respect to 31 brokerage orders received by SWST during the period January 1, 2006 through April 30, 2006, the firm failed to show on the order memorandum the date of execution, the time of execution, the time of entry and/or the terms and conditions of each such order. The conduct described in this paragraph constitutes separate and distinct violations of NASD Conduct Rule 3110 and SEC Rule 17a-3.

Matter 20050013802

3. In 22 transactions for or with a customer, as reflected in Exhibit A, SWST failed to use reasonable diligence to ascertain the best inter-dealer market and failed to buy or sell in such market so that the resultant price to its customer was as favorable as possible under prevailing market conditions. The conduct described in this paragraph constitutes separate and distinct violations of NASD Conduct Rules 2110 and 2320.

Matter 20050023704

4. During the period April 1, 2005 through June 30, 2005, the firm failed to report to TRACE the correct time of trade execution for 612 transactions in TRACE-eligible securities. The conduct described in this paragraph constitutes separate and distinct violations of NASD Marketplace Rule 6230(c)(8).

5. During the period April 1, 2005 through June 30, 2005, the firm failed to report to TRACE 529 transactions in TRACE-eligible securities executed on a business day during TRACE system hours within 30 minutes of the time of execution. The conduct described in this paragraph constitutes separate and distinct violations of NASD Marketplace Rule 6230(a).

Matter 20050034093

6. During the period April 1, 2005 through June 30, 2005, the firm failed to report information regarding 524 purchase and sale transactions effected in municipal securities to the Real-time Transaction Reporting System ("RTRS") in the manner prescribed by Rule G-14 RTRS Procedures and the RTRS Users Manual. Specifically, the firm failed to report information about such transactions within 15 minutes of Time of Trade to an RTRS Portal. The conduct described in this paragraph constitutes separate and distinct violations of MSRB Rule G-14.
7. SWST's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and the Rules of the MSRB, concerning timely reporting of municipal securities transactions. Specifically, the firm's supervisory system did not include within its written supervisory procedures any identification of the specific person(s) responsible for supervision with respect to the applicable rules. The conduct described in this paragraph constitutes a violation of MSRB Rules G-17 and G-27(a).

B. The firm also consents to the imposition of the following sanctions:

A censure; a fine of \$67,500 (comprised of \$25,000 for the firm's recordkeeping violations; \$20,000 for the firm's best execution violations;¹ \$12,500 for the firm's TRACE-reporting violations; \$5,000 for the firm's MSRB-reporting violations; and \$5,000 for the firm's supervisory deficiency with respect to MSRB-reporting); and an undertaking to revise the firm's supervisory procedures with respect to the deficiencies described in paragraph I.A.7. Within 30 business days of acceptance of this AWC by the NAC, a registered principal of SWST shall submit to the COMPLIANCE ASSISTANT, LEGAL SECTION, DEPARTMENT OF MARKET REGULATION, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850 a signed, dated letter, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its supervisory procedures to address the deficiencies described in paragraph I.A.7; and (3) the date(s) on which the revised procedures were implemented.

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

¹ No restitution has been ordered to be paid as part of this AWC because the firm had already provided the requisite price improvements to the customers adversely affected by the best execution violations identified in paragraph I.A.3 and Exhibit A.

The firm agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. The firm has submitted an Election of Payment form showing the method by which it proposes to pay the fines imposed.

The firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanctions imposed in this matter.

II.

WAIVER OF PROCEDURAL RIGHTS

The firm 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 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 National Adjudicatory Council ("NAC") and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the firm 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.

The firm 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.

III.

OTHER MATTERS

The firm 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 the firm; and
- C. If accepted:
 - 1. This AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the firm;
 - 2. This AWC will be made available through FINRA's public disclosure program in response to public inquiries about the firm's disciplinary records;
 - 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. The firm 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. The firm 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 the firm's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.
- D. The firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The firm 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 or its staff.

The firm certifies 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; that it 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 herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the firm to submit it.

1/28/08
Date

Respondent

Southwest Securities, Inc.

By: Phyllis KnowlesName: Phyllis KnowlesTitle: Director of Compliance

Reviewed by:

[Signature]
Michael D. Wolk, Esq.
Counsel for Southwest Securities, Inc.
Foley & Lardner LLP
Attorneys at Law
3000 K Street, N.W., Suite 500
Washington, DC 20007-5101
(202) 945-6013

Accepted by FINRA:

3/5/08
Date

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

[Signature]
Thomas R. Gira
Executive Vice President
Department of Market Regulation

Southwest Securities, Inc. ("SWST")
20050013802

Exhibit A

Order Information						Trade Information						Required Price Improvements			
Item No.	Date	Issue	Order to B/S	Quantity	Time Received	Order ID	MPID	Capacity	Executed Quantity	Price	Report Time	Execution Time	MP BSeq	Adjustment Price	Adjustment Due
1	1/10/2005	APPX	S	500	9:22:54		SWST	P	300	52.42	9:31:37	9:31:37	AWAT2863	\$55.00	\$774.00
2a	1/10/2005	EBAY	B	500	9:54:03		SWST	R	100	107	9:55:27	9:55:27	AWAT4848		
2b	1/10/2005	EBAY	B	500	9:54:03		SWST	R	200	107.09	9:55:59	9:55:59	AWAT4846	\$108.83	\$48.00
3	1/10/2005	GRMN	S	500	11:28:38		SWST	P	200	52.77	11:30:57	11:30:57	BWAT0715	\$52.88	\$22.00
4	1/10/2005	XMSR	B	700	10:12:38		SWST	P	500	33	10:13:51	10:13:51	AWAT5698	\$32.97	\$15.00
5a	1/11/2005	TASR	B	500	9:51:28		SWST	R	200	18.35	9:53:04	9:53:04	AWAT4816		
5b	1/11/2005	TASR	B	500	9:51:28		SWST	R	100	18.38	9:53:06	9:53:06	AWAT4816	\$16.24	\$38.00
6	1/11/2005	TASR	B	500	13:59:09		SWST	P	400	15.08	14:00:24	14:00:24	BWAT9909	\$15.03	\$20.00
7	1/12/2005	ANTP	B	820	12:33:17		SWST	P	420	33.38	12:34:19	12:34:19	BWAT4828	\$33.33 (for 100 shares)	\$3.00
8	1/19/2005	PXLW	S	800	10:46:52		SWST	R	300	10.94	10:51:38	10:51:38	AWAT8393	\$10.95	\$3.00
9	1/25/2005	TZOO	B	500	10:01:18		SWST	R	300	59.45	10:02:54	10:02:54	AWAT5601	\$59.17 (for 200 shares) and \$68.22 (for 100 shares)	\$78.00
10	1/25/2005	WGAT	B	1000	9:14:34		SWST	P	200	3.51	9:32:30	9:32:30	AWAT2980	\$3.45	\$12.00
11	1/28/2005	CTEC	B	700	8:52:55		SWST	R	100	11.49	9:31:12	9:31:12	AWAT2817	\$11.30	\$18.00
12	1/31/2005	NAPS	S	1000	12:57:34		SWST	P	500	8.97	12:58:48	12:58:47	BWAT5917	\$8.98	\$5.00
13a	2/1/2005	BOOM	S	1000	16:05:43		SWST	R	100	12.57	15:06:52	15:06:52	CWAT5844		
13b	2/1/2005	BOOM	S	1000	15:05:43		SWST	R	100	12.51	15:07:00	15:06:59	CWAT6844	\$12.65	\$22.00
14a	2/3/2005	AAPL	S	435	12:10:38		SWST	P	200	77.76	12:12:02	12:12:02	BWAT3833		
14b	2/3/2005	AAPL	S	435	12:10:38		SWST	P	235	77.76	12:12:30	12:12:30	BWAT3833	\$77.84	\$34.60
15a	2/4/2005	ANTP	B	1000	9:54:38		SWST	R	100	24.34	9:55:41	9:55:41	AWAT4746		
15b	2/4/2005	ANTP	B	1000	9:54:38		SWST	R	100	24.34	9:55:41	9:55:41	AWAT4746		
15c	2/4/2005	ANTP	B	1000	9:54:38		SWST	R	99	24.36	9:56:49	9:56:49	AWAT4746		
15d	2/4/2005	ANTP	B	1000	9:54:38		SWST	R	100	24.19	9:56:53	9:56:53	AWAT4746		
15e	2/4/2005	ANTP	B	1000	9:54:38		SWST	R	100	24.4	9:57:04	9:57:04	AWAT4746	\$24.28 (for 100 shares) and \$24.34 (for 300 shares)	\$27.05
15f	2/4/2005	ANTP	B	1000	9:54:38		SWST	R	99	24.39	9:57:09	9:57:09	AWAT4746		
15g	2/4/2005	ANTP	B	1000	9:54:38		SWST	R	1	24.4	9:57:09	9:57:09	AWAT4746		
15h	2/4/2005	ANTP	B	1000	9:54:38		SWST	R	101	24.4	9:57:18	9:57:18	AWAT4746		
16	2/4/2005	KLAC	B	500	15:08:30		SWST	P	500	48.249	15:08:10	15:08:10	CWAT5886	\$48.17	\$39.50
17	2/9/2005	UTSI	B	500	15:31:51		SWST	R	300	14.71	15:34:53	15:34:53	CWAT5542	\$14.68	\$9.00
18	2/11/2005	XMSR	B	1000	10:47:29		SWST	P	500	33.07	10:48:43	10:48:43	AWAT8863	\$33.04	\$15.00
19a	2/22/2005	GLBL	B	700	10:01:39		SWST	P	100	9.18	10:03:37	10:03:37	AWAT5569	\$9.18 (for 100 shares)	\$3.00
19b	2/22/2005	GLBL	B	700	10:01:39		SWST	P	300	9.18	10:03:37	10:03:37	AWAT5569		
19c	2/22/2005	GLBL	B	700	10:01:39		SWST	P	100	9.21	10:03:44	10:03:44	AWAT5569		
20	3/9/2005	BOOM	B	500	14:19:52		SWST	P	300	28.44	14:21:17	14:21:17	CWAT2138	\$28.12 (for 200 shares)	\$54.00
21	3/16/2005	OSIP	B	1000	10:58:48		SWST	P	800	45.88	11:00:51	11:00:51	AWAT9387	\$45.84 (for 400 shares) and \$45.65 (for 400 shares)	\$12.00
22	3/23/2005	GENZ	S	1000	9:37:15		SWST	P	800	56.37	9:38:17	9:38:16	AWAT9386	\$56.38	\$8.00
Total															\$1,270.15