

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20060051011-01**

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FINANCIAL INDUSTRY REGULATORY AUTHORITY

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

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

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Southwest Securities, Inc. (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

- 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:

BACKGROUND

The firm has been a member of FINRA since May 30, 1972 and its registration remains in effect.

RELEVANT DISCIPLINARY HISTORY

The firm has no prior relevant disciplinary history.

FACTS AND VIOLATIVE CONDUCT

In Matter No. 20060051011, the staff of the Department of Market Regulation (the "staff") reviewed the firm's compliance with SEC Rule 203(b)(3) of Regulation SHO, and NASD Rules 2110 and 3010 during the period from January 1, 2006 through March 31, 2006.

In Matter No. 20060069214, the firm reported to the staff violations of the NASD's Order Audit Trail System's ("OATS") reporting requirements during various periods from January 2004 through April 2006.

In Matter No. 20070089528, the staff reviewed the firm's compliance with the Municipal Securities Rulemaking Board's ("MSRB") trade reporting requirements for the period from January 1, 2007 through March 31, 2007.

In Matter No. 20070119440, the staff reviewed the firm's compliance with NASD Rules 2110, 2440 and IM-2440, and MSRB Rules G-17 and G-30 during the period from January 1, 2003 through March 31, 2005 (the "review period").

In connection with Matter No. 20060051011:

1. During the period from January 1, 2006 through March 31, 2006, the firm had a fail-to-deliver position at a registered clearing agency in Cash Now Corporation common stock ("CHNW"), a threshold security, for 13 consecutive settlement days beginning December 28, 2005, and failed to immediately thereafter close out the fail-to-deliver position by purchasing securities of like kind and quantity. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 203(b)(3) of Regulation SHO.
2. During the period from January 1, 2006 through March 31, 2006, the firm'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 NASD, concerning SEC Rules 203(a) and 203(b)(3). Specifically, the firm's supervisory system did not include written supervisory procedures providing for: (1) the identification of the person(s) responsible for supervision with respect to the applicable rules; (2) a statement of the supervisory step(s) to be taken by the identified person(s); (3) a statement as to how often such person(s) should take such step(s); and (4) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented. The conduct described in this paragraph constitutes a violation of NASD Rules 2110 and 3010.
3. The firm failed to provide documentary evidence that during the period from January 1, 2006 through March 31, 2006, it performed the supervisory reviews set forth in its written supervisory procedures concerning NASD Rules 3350 and 6130(d)(6), and SEC Rules 200(g) and 203(b)(1) of Regulation SHO. The conduct described in this paragraph constitutes violations of NASD Rules 2110 and 3010.

In connection with Matter No. 20060069214:

4. During the period from April 2005 through February 2006, the firm failed to report to OATS 16,921 Route Reports, or four percent of all reportable Route Reports submitted by the firm. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).
5. During the period from August 2004 through April 2006, the firm reported 109,307 Route or Combined Order/Route Reports with an inaccurate destination code, or 16 percent of all Route or Combined Order/Route Reports submitted by the firm. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).

In connection with Matter No. 20070089528:

6. During the period from January 1, 2007 through March 31, 2007, the firm failed to report information regarding 126 purchase and sale transactions effected in municipal securities to the 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. These transactions constituted 3.5 percent of the transactions that the firm reported to the RTRS during the period reviewed. The conduct described in this paragraph constitutes separate and distinct violations of MSRB Rule G-14.

In connection with Matter No. 20070119440:

7. During the review period, in five transactions, the firm sold (bought) corporate bonds to (from) customers and failed to sell (buy) such bonds at a price that was fair, taking into consideration all relevant circumstances, including market conditions with respect to each bond at the time of the transaction, the expense involved and that the firm was entitled to a profit. The transactions are identified on Exhibit A which is attached. Each of the customers identified on Exhibit A was a Qualified Institutional Buyer. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 2110.
8. During the review period, in five transactions, the firm sold (bought) corporate bonds to (from) customers and failed to sell (buy) such bonds at a price that was fair, taking into consideration all relevant circumstances, including market conditions with respect to each bond at the time of the transaction, the expense involved and that the firm was entitled to a profit. The transactions are identified on Exhibit B which is attached. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rules 2110, 2440 and IM-2440.

9. During the review period, in two pairs of transactions, the firm purchased municipal securities for its own account from a customer and/or sold municipal securities for its own account to a customer at an aggregate price (including any mark-down or mark-up) that was not fair and reasonable, taking into consideration all relevant factors, including the best judgment of the broker, dealer or municipal securities dealer as to the fair market value of the securities at the time of the transaction and of any securities exchanged or traded in connection with the transaction, the expense involved in effecting the transaction, the fact that the broker, dealer, or municipal securities dealer is entitled to a profit, and the total dollar amount of the transaction. The transactions are identified on Exhibit C which is attached. The conduct described in this paragraph constitutes separate and distinct violations of MSRB Rules G-17 and G-30(a).

OTHER FACTORS

The firm self-reported the OATS reporting violations set out in paragraphs I.A.4 – I.A.5. The sanctions below reflect a lower fine as a result of the firm's self-reporting.

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

A censure, a fine of \$54,500 (consisting of a fine of \$7,500 for the violations of SEC Rule 203(b)(3) of Regulation SHO, \$5,000 for the violations of NASD Rule 2110 and 3010, \$5,000 for the violations of NASD Rule 6955(a), \$5,000 for the violations of MSRB Rule G-14, and \$32,000 for the violations of NASD Rules 2110, 2440 and IM-2440, and MSRB Rules G-17 and G-30), restitution by Respondent to the customers listed on Exhibits A, B and C, which are attached, in the total amount of \$23,394.08, plus interest at the rate set forth in Section 6621(a) of the Internal Revenue Code, 26 U.S.C. 6621(a)(2), from the date of the violative conduct until the date this AWC is accepted by the National Adjudicatory Council, and an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraph I.A.2.

A registered principal of the firm shall submit satisfactory proof of payment of the restitution, or of reasonable and documented efforts undertaken to effect restitution, to the COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850 or in an e-mail from a work-related account of the registered principal to MarketRegulationComp@finra.org, no later than 120 days after acceptance of this AWC. If for any reason, Respondent cannot locate any customer after reasonable and documented efforts within such period, or such additional period agreed to by the staff, Respondent shall forward any undistributed restitution and interest to the appropriate escheat, unclaimed-property or abandoned-property fund

MD 20060051011 (including 20060069214, 20070089528, and 20070119440)

for the state in which the customer is known to have last resided.

Within 30 business days of acceptance of this AWC by the NAC, a registered principal of the Respondent shall submit to the **COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850**, a signed, dated letter, or an e-mail from a work-related account of the registered principal to:

MarketRegulationComp@finra.org, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its written supervisory procedures to address the deficiencies described in paragraph I.A.2; and, (3) the date the revised procedures were implemented..

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

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

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 Complaint issued specifying the allegations against the firm;
- B. To be notified of the 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 FINRA Rule 9143 or the separation of functions prohibitions of FINRA 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 FINRA 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 record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; 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 undersigned, on behalf of the Firm, certifies that a person duly authorized to act on its behalf 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.

10/21/09
Date

Respondent

Southwest Securities, Inc.

By:

Thyllis Knowles

Name:

Thyllis Knowles

Title:

Director of Compliance

Reviewed by:

Timothy B. Nagy
Timothy B. Nagy, Esq.
Counsel for Respondent
Bingham McCutchen LLP
2020 K Street, N.W.
Washington, D.C. 20006-1806

Accepted by FINRA:

11/11/09
Date

Signed on behalf of the

Director of ODA, by delegated authority

Thomas R. Gira
Thomas R. Gira
Executive Vice President
Department of Market Regulation

EXHIBIT X

Southwest Securities Inc. ("SWST")
 Review Period: January 1, 2003 through March 31, 2003
 SWST - 240305/04

Item No.	Date	Custid	Issue	Quantity	Contra	Trade 1 Time	Trade 1 Price	From	Contra 2**	Trade 2 Time	Trade 2 Price	Mark-up	Mark-down	Spread	Realization
8	3/4/2003	700786AC3	RWKS.GA	800	C(S)	15:23:00	0.375	SWST	B-D(B)	15:53:00	0.5		25.00%		\$728.40
8	3/4/2003	633847AE6	NTLQ.TC	55	B-D(B)	10:08:00	13.5	SWST	C(S)	10:22:00	8		40.74%		\$2,894.78
10	3/5/2003	350130AT3	PLMGM	1500	C(S)	16:29:00	2	SWST	B-D(B)	16:31:00	3		33.43%		\$12,750.00
11	4/7/2003	087908AL9	BS.GE	100	C(S)	15:40:00	3.25	SWST	B-D(B)	16:05:00	3.75		18.33%		\$100.00
19	1/7/2004	365834AC80	UCBSQ.GA	20	B-D(B)	15:14:00	15	SWST	C(S)	16:24:00	8		48.93%		\$1,000.10
															\$17,200.28

** Contra parties are identified as follows: B-D (S) indicates another Broker-Dealer selling to the firm; B-D (B) indicates another Broker-Dealer buying from the firm; C(S) indicates a customer selling to the firm; and C (B) indicates a customer buying

Southwest Securities Inc. ("SWST")
 Return Period: January 1, 2002 through March 31, 2005
 SWST-2005033013

[illegible]

Southwest Securities, Inc. ("SWSI")
Review Period: January 1, 2003 through March 31, 2005

Item No.	Date	Cusip Id	Issue	Quantity	Contract #	Trade 1 Time	Trade 1 Price	Firm	Contract 2 #	Trade 2 Time	Trade 2 Price	Mark-up	Mark-down	Spread	Settlement
2	7/19/2003	016821A46	-	100	C(S)	14:31:00	52	SWST	B-D (B)	15:38:00	55		5.487%		5-1-5588.00
4	1/15/2004	016821A46	-	50	C(B)	11:41:00	48	SWST	B-D (B)	13:58:00	71.76		5.25%		662.42
															5-2398.42

Contract parties are identified as follows: B-D (S) indicates another Broker-Dealer buying from the firm; C (S) indicates a customer selling to the firm; and C (B) indicates a customer buying

... Contra parties are identified as follows: B-D (S) indicates another Broker-Dealer selling to the firm; C-S (S) indicates a customer selling to the firm; and C-B (B) indicates another Broker-Dealer buying from the firm; C-S (S) indicates a customer buying from the firm; and C-B (B) indicates another Broker-Dealer selling to the firm. B-D (S) indicates another Broker-Dealer selling to the firm; C-S (S) indicates a customer selling to the firm; and C-B (B) indicates another Broker-Dealer buying from the firm; C-S (S) indicates a customer buying from the firm; and C-B (B) indicates another Broker-Dealer selling to the firm.