

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2007007167701**

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

RE: Southwest Securities, Inc.
Member Firm
CRD No. 6220

Pursuant to NASD Rule 9216 of FINRA's Code of Procedure, Southwest Securities, 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

Southwest has been a member of FINRA since May 1972. The firm is also registered as a broker dealer with the Securities and Exchange Commission. Southwest provides securities clearing services and conducts a full service retail brokerage business which includes stock and bond trading, market making, securities lending, and public finance activities. The firm currently employs approximately 345 registered personnel and operates 36 branch offices.

RELEVANT PRIOR DISCIPLINARY HISTORY

The firm's most recent relevant disciplinary history consists of the following:

On March 12, 2008, FINRA accepted a Letter of Acceptance, Waiver and Consent ("AWC") (20050000962-01) whereby the firm was censured and fined \$67,500 for failing to preserve brokerage order memoranda, for failing to show the date of execution, the time of execution, and the time

of entry for each order, for failing to obtain the best inter-dealer market, for failing to report the correct time of trade execution to TRACE, for failing to timely report transactions to TRACE, for failing to report information in municipal securities to RTRS, and for related supervisory violations. The firm was charged with violating NASD Rules 2110, 2320, 3110, 6230, and MSRB Rules G-14, G-17, and G-27, and SEC Rules 17a-3 and 17a-4.

On June 30, 2006, FINRA accepted an AWC (No. 2004200022501) whereby the firm was censured and fined \$160,000 and required to revise its written supervisory procedures all for failing to properly register certain of its associated persons and for trade reporting and supervisory violations. Of the total fine amount, \$25,000 was allocated to the TRACE violations. The firm was charged with violating NASD Rules 1021, 2110, 3010, 5262, 6230 and 6955(a).

On February 17, 2006, the NYSE issued a Decision (No. 05-157) whereby the firm was censured and fined \$300,000, and required to conduct a validation of all required blue sheet data elements and also required to inform the NYSE in writing that the validation had been completed, all for failing to submit accurate trading information to the Exchange and for related supervisory violations. The firm was charged with violating Exchange Rules 342, 401 and 410(a).

On June 3, 2005, FINRA accepted an AWC (No. CLG050074) whereby the firm and two individuals were censured and fined \$10,000 for failing to maintain continuous two-sided quotations in the absence of a grant of excused withdrawal or a functional excused withdrawal by FINRA and for related supervisory violations. The firm was also required to revise its written supervisory procedures with respect to the maintenance of continuous two-sided quotations. The firm was charged with violating NASD Rules 2110, 3010 and 5220(e).

On January 10 and January 14, 2005, the SEC and NYSE issued decisions (SEC No. 3-11793/Litigation Release No. 34-51002 and NYSE No. 04-154) whereby the firm was censured and fined \$10,000,000 (which included \$2,000,000 in disgorgement and interest) and ordered to revise its written supervisory procedures relating to the trading of mutual funds, all for failing to supervise the late trading and market timing of mutual funds and for failing to maintain and preserve certain books and records. The firm was charged with violating Exchange Rules 342 and 440, SEC Rules 17a-3 and 17a-4, and Investment Company Act Rule 22c-1.

On December 18, 2003, FINRA accepted an AWC (No. CMS030287) whereby the firm was censured and fined \$10,000 for trade reporting

violations relating to reports entered into TRACE, in violation of NASD Rules 2110, 6230 and 6230(c)(8).

OVERVIEW

Southwest Securities, Inc. ("Southwest") failed to report certain transactions in TRACE-eligible securities, and failed to accurately report other transactions in TRACE-eligible securities. Southwest also failed to disclose the correct capacity on customer confirmations. Lastly, Southwest failed to establish a reasonable supervisory system for the reporting of transactions in TRACE-eligible securities and for ensuring that customer confirmations disclosed the correct capacity.

FACTS AND VIOLATIVE CONDUCT

1. During the period from February 2006 through February 2007, Southwest violated NASD Marketplace Rule 6230 in that out of 466 corporate bond transactions reviewed, (i) 243 transactions were not reported to TRACE; (ii) 140 transactions were reported to TRACE without the correct pricing information; and (iii) 83 transactions were reported as bunched transactions, which is not permitted by TRACE.

Such acts, practices, and conduct constitute separate and distinct violations of NASD Conduct Rule 2110 and NASD Marketplace Rule 6230 by Respondent Southwest Securities, Inc.

2. During the period from February 2006 through February 2007, and concerning the 466 transactions referenced in paragraph 1 above, Southwest failed to disclose the correct capacity on all customer confirmations. Southwest reflected its capacity as agent when in fact Southwest had acted as principal in all 466 transactions.

Such acts, practices, and conduct constitute separate and distinct violations of SEC Rule 10b-10(a)(2) and NASD Conduct Rule 2110 by Respondent Southwest Securities, Inc.

3. During the period from February 2006 through February 2007, Southwest failed to establish and maintain a system to supervise (i) the reporting of TRACE-eligible securities; and (ii) the disclosure of capacity on customer confirmations.

Such acts, practices, and conduct constitute separate and distinct violations of NASD Conduct Rules 2110 and 3010(a) by Respondent Southwest Securities, Inc.

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

A censure and a monetary fine of \$45,000.

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is due and payable. Respondent has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

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.

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 her;
- 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 make any statement that is inconsistent with the AWC in this Statement.

Letter of Acceptance, Waiver and Consent
2007007167701/Southwest Securities, Inc.

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 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 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.

6/26/08
Date

Southwest Securities, Inc.
By: Phyllis Knowles
Name: Phyllis Knowles
Title: CCO / EVP

Reviewed by:

Counsel for Respondent

Accepted by FINRA:

7/24/2008
Date

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

George C. McGuigan Jr.
George C. McGuigan Jr.
Senior Regional Counsel

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