

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20090181027-01**

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 became a FINRA member on May 30, 1992. Its membership remains in effect.

RELEVANT DISCIPLINARY HISTORY

The firm has the following relevant disciplinary history:

On July 24, 2008, FINRA accepted the Firm's AWC (No. 20070071677-01) in which it was censured and fined \$45,000 (fine not allocated between multiple rules violations) for conduct including violations of NASD Rules 6230 and 2110 during the period February 2006 through February 2007.

On March 12, 2008, FINRA accepted the Firm's AWC (No. 20050000962-01) in which it was censured and fined \$12,500 for violations of NASD Rule 6230 during the period April 1, 2005 through June 30, 2005.

SUMMARY

In Matter No. 20090181027, FINRA's Department of Market Regulation reviewed the firm's compliance with Municipal Securities Rulemaking Board ("MSRB") rules regarding fair pricing in municipal bond transactions during the period October 1, 2008 through January 9, 2009.

In Matter No. 20100226201, FINRA's Department of Market Regulation reviewed the firm's compliance with MSRB rules regarding fair pricing in municipal bond transactions during the period July 1, 2009 through September 30, 2009.

In Matter No. 20110288760, FINRA's Department of Market Regulation reviewed the firm's compliance with FINRA rules applicable to trade reporting of Agency Debt Securities transactions eligible for the Trade Reporting and Compliance Engine ("TRACE") during the period April 1, 2011 through June 30, 2011.

FACTS AND VIOLATIVE CONDUCT

In connection with Matter No. 20090181027

1. During the review period, in nine 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 A which is attached. The conduct described in this paragraph constitutes separate and distinct violations of MSRB Rules G-17 and G-30(a).

In connection with Matter No. 20100226201

2. During the review period, in eight 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 B which is attached. The conduct described in this paragraph constitutes separate and distinct violations of MSRB Rules G-17 and G-30(a).

In connection with Matter Nos. 20090181027 and 20100226201

3. 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 Municipal Securities Rulemaking Board ("MSRB") rules, concerning fair and reasonable pricing to customers in municipal bond transactions. Specifically, the firm's supervisory system did not include adequate written supervisory procedures providing for a statement of the supervisory step(s) to be taken by the person(s) responsible for supervision with respect to the applicable rules. The conduct described in this paragraph constitutes a violation of MSRB Rule G-27.

In connection with Matter No. 20110288760

4. During the review period, the firm failed to report to TRACE 89 transactions in TRACE-eligible securities within 15 minutes of the time of execution. These late transactions constituted 5.5 percent of the transactions in TRACE-eligible securities that the firm reported to TRACE during the review period. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 6730(a) and a pattern or practice of late reporting without exceptional circumstances in violation of FINRA Rule 2010.

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

1. Censure;
2. A \$77,500 fine (\$52,500 for MSRB Rule G-17 and G-30 violations in Matter No. 20090181027, \$12,500 for MSRB Rule G-17 and G-30 violations in Matter No. 20100226201, \$5,000 for MSRB Rule G-27 violations found in Matter Nos. 20090181027 and 20100226201, and \$7,500 for TRACE violations found in Matter 20110288760);
3. Restitution by Respondent to the customers listed on Exhibits A and B, which are attached, in the total amount of \$32,167.14, 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 ("NAC"). 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 for the state in which the customer is known to have last resided; and
4. An undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraph I.A.3, above. 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.3; and, (3) the date the revised procedures were implemented.

The firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) 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 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

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 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.

2/8/13
Date

By: Mike Coglian
Name: Mike Coglian
Title: CCO

Counsel for Respondent

3/15/13
Date

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

Exhibit A
(Matter No. 20090181027)

Item	Date	Cusip	Issue	Quantity	Contra*	Trade Time	Trade Price	Firm	Restitution
1	12/17/2008	010969AQ8	ALAMEDA CORRIDOR TRANSN AUTH CALIF REV SR LIEN-SER A (CA)	20	C (S)	15:14:22	67.75	SWST	\$2,335.80
2	12/16/2008	13062T3G7	CALIFORNIA ST PREREFUNDED (US); CUSIP 13062T3G7; COUPON 5%	10	C (S)	18:33:40	103.000	SWST	\$227.85
3	12/23/2008	45853JBC4	INTERCOMMUNITY HOSP FING AUTH CALIF CTFS PARTN (CA)	30	C (B)	13:37:46	86.849	SWST	\$1,959.04
4	12/29/2008	45853JBC4	INTERCOMMUNITY HOSP FING AUTH CALIF CTFS PARTN (CA)	5	C (B)	13:55:15	86.856	SWST	\$448.64
5	12/29/2008	45853JBC4	INTERCOMMUNITY HOSP FING AUTH CALIF CTFS PARTN (CA)	10	C (B)	15:05:21	86.856	SWST	\$897.29
6	1/8/2009	45853JBC4	INTERCOMMUNITY HOSP FING AUTH CALIF CTFS PARTN (CA)	50	C (B)	12:10:54	86.88	SWST	\$4,532.10
7	1/9/2009	45853JBC4	INTERCOMMUNITY HOSP FING AUTH CALIF CTFS PARTN (CA)	15	C (B)	12:23:03	86.883	SWST	\$1,360.05
8	1/9/2009	45853JBC4	INTERCOMMUNITY HOSP FING AUTH CALIF CTFS PARTN (CA)	140	C (B)	12:44:42	86.883	SWST	\$12,694.08
9	12/16/2008	797652M76	SAN FRANCISCO CALIF CITY & CNTY ARPTS COMM INTL ARPT REV AMT-SECOND SER-ISSUE 15A (US);	20	C (S)	13:16:10	59.78	SWST	\$1,210.69
Total:									\$25,665.26

*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 from the firm.

Exhibit B
(Matter No. 20100226201)

Item No.	Trade Date	Trade Time	CUSIP	Firm	B/S	Contra	Quantity	Price	Restitution
1	07/08/2009	17:59:21	544399CX4	SWST	B	C(S)	10,000	89.25	\$560.00
2	08/18/2009	12:20:00	413893AH1	SWST	S	C(B)	30,000	90.73	\$1,413.00
3	8/21/2009	14:15:00	21969PDD8	SWST	S	C(B)	50,000	88.72	\$323.00
4	09/09/2009	15:49:46	88256CEX3	SWST	B	C(S)	40,000	96.05	\$525.20
5	09/17/2009	14:36:17	88256CEX3	SWST	B	C(S)	15,000	96.53	\$588.00
6	09/17/2009	16:13:10	88256CEX3	SWST	B	C(S)	50,000	97.02	\$1,715.00
7	09/21/2009	15:02:47	744387AD3	SWST	B	C(S)	10,000	96.04	\$931.00
8	09/22/2009	16:34:59	38122NPB2	SWST	B	C(S)	20,000	69.09	\$446.68
								TOTAL	\$6,501.88

* 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 from the firm.