

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2011025621401**

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

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

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, 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 Securities, Inc. is currently, and was during all times relevant hereto, a member of FINRA and registered as a broker/dealer with the U.S. Securities and Exchange Commission. Southwest registered with FINRA in May 1972 as a full-service broker/dealer. The firm is headquartered in Dallas, Texas, employs 538 registered personnel, and operates 46 branch offices.

RELEVANT DISCIPLINARY HISTORY

Southwest's relevant disciplinary history includes the following:

On February 8, 2011, FINRA issued a Letter of Acceptance, Waiver and Consent (No. 2009016275601), in which the firm was censured, fined \$500,000, and ordered to certify that it had reviewed its procedures regarding compliance with all applicable MSRB rules for violations of

MSRB Rule G-14, G-27, G-36, and G-38. FINRA found that Southwest: (i) used unaffiliated individuals to solicit municipal securities business on behalf of the firm; (ii) failed to timely file official statements and Forms G-36(OS) in connection with the primary offering of municipal securities; (iii) failed to timely file advance refunding documents and Forms G-36(ARD) in connection with advance refund issues; (iv) failed to accurately report certain municipal securities transactions to the MSRB; and (v) failed to adopt, maintain, and enforce procedures reasonably designed to ensure compliance with applicable MSRB rules.

On March 24, 2010, the U.S. Securities and Exchange Commission issued a Cease and Desist Order (Administrative Proceeding No. 3-13831), in which Southwest was fined \$50,000, and ordered to disgorge \$348,154 (plus \$71,993 in pre-judgment interest) for willful violations of MSRB Rules G-37(b) and G-37(e), and Section 15B(c)(1) of the Exchange Act. The SEC found that a Southwest municipal finance professional had made political contributions to an issuer official in the State of Massachusetts, and that, within two years of the political contributions, Southwest had engaged in prohibited municipal securities business with the issuer. The SEC also found that the political contributions were not disclosed on MSRB Form G-37.

On November 12, 2009, FINRA issued a Letter of Acceptance, Waiver and Consent (No. 2006005101101), in which the firm was censured, fined \$54,500, and ordered to pay restitution to customers in the amount of \$23,394.08, plus interest, for violations of, among other provisions, MSRB Rules G-14, G-17 and G-30(a). FINRA found that the firm bought and/or sold corporate bonds to and/or from customers, and failed to sell and/or buy the bonds at a fair price.

On July 18, 2008, FINRA issued a Letter of Acceptance, Waiver and Consent (No. 2005002895501), in which the firm was fined \$75,000 for violations of, among other provisions, MSRB Rule G-41. FINRA found that Southwest failed to develop and implement a written Anti-Money Laundering ("AML") Program that was reasonably designed to achieve and monitor its compliance with the requirements of the Bank Secrecy Act in that it failed to timely address deficiencies noted in three consecutive independent tests of its AML Program.

On March 12, 2008, FINRA issued a Letter of Acceptance, Waiver and Consent (No. 2005000096201), in which the firm was fined \$67,500 for violations of, among other provisions, MSRB Rules G-14, G-17 and G-27(a). FINRA found that Southwest failed to properly and timely report information regarding municipal securities transactions, and failed to have an adequate supervisory system in place that was designed to achieve compliance with MSRB rules concerning the timely reporting of

municipal securities transactions. In addition to the fine, the firm was also ordered to revise its supervisory procedures regarding the timely reporting of municipal securities transactions.

On September 12, 2007, FINRA issued a Letter of Acceptance, Waiver and Consent (No. E062005004101), in which the firm was fined \$5,000 for violating MSRB Rule G-36. FINRA found that Southwest failed to timely submit Forms G-36(OS) to the MSRB.

FACTS AND VIOLATIVE CONDUCT

- A.
1. MSRB Rule G-32(a)(i) requires broker/dealers to deliver to the customer a copy of the official statement (OS) by no later than the settlement of the transaction. On June 16, 2010, Southwest violated MSRB Rule G-32(a)(i) by failing to provide the OS in a municipal securities offering to customers whose transactions settled on that day. There were 34 relevant transactions totaling \$13,525,000 that settled on June 16, 2010.
 2. MSRB Rule G-32(b)(i) requires the underwriter of a primary offering of municipal securities to submit the OS to the Electronic Municipal Market Access (EMMA) system within one business day after receipt of the OS from the issuer, but by no later than the closing date. From June 2009 to June 2010, Southwest violated MSRB Rule G-32(b)(i) by failing to timely submit the OS to EMMA in 10 municipal offerings, and filing an inaccurate OS in one offering. The filings were between 2 and 18 days late.
 3. MSRB Rule G-32(b)(ii) requires the underwriter, if a primary offering advance refunds outstanding municipal securities and an advance refunding document (ARD) is prepared, to submit the ARD to EMMA by no later than five business days after the closing date. From March 2010 to September 2010, Southwest violated MSRB Rule G-32(b)(ii) by failing to timely submit the ARD to EMMA in two municipal offerings. The filings were between 10 and 93 days late.
- B. Respondent also consents to the imposition of the following sanctions:

Censure and a fine in the amount of \$85,000.

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 it is unable to pay, now or at any time hereafter, the monetary sanction 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 Complaint issued specifying the allegations against it;
- 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, 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 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

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 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 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 it;
 - 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 FINRA Rule 8313; 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. 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; 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 the Firm to submit it.

10/22/2012
Date (mm/dd/yyyy)

Southwest Securities, Inc., Respondent

By: Allen R. Tubb
(Signature)

Name: Allen R. Tubb
(Print Name)

Title: Chief Legal Officer

Reviewed by:

Counsel for Respondent

Accepted by FINRA:

11/02/2012
Date

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

Steve Graham
Steve Graham

Senior Regional Counsel
FINRA Department of Enforcement
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