

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT

CLG050074

TO: Market Regulation Department
NASD

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

Pursuant to Rule 9216 of NASD Code of Procedure, 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 in Part II below. This AWC is submitted on the condition that, if accepted, NASD will not bring any future actions against SWST alleging violations based on the same factual findings.

SWST understands that:

1. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by NASD's Department of Market Regulation and National Adjudicatory Council ("NAC") Review Subcommittee or Office of Disciplinary Affairs, pursuant to NASD Rule 9216;
2. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against SWST; and
3. If accepted:
 - a. this AWC will become part of SWST's permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against SWST;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about SWST's disciplinary record;
 - c. NASD may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-2; and
 - d. SWST 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 allegation in this AWC or create the impression that the AWC is without factual basis. Nothing in this provision affects SWST's testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

SWST also understands that its experience in the securities industry and disciplinary history may be factors that will be considered in deciding whether to accept this AWC. That experience and history are as follows:

SWST has been a member of NASD since May 30, 1972 and its registration remains effective. The firm has no relevant disciplinary history.

I.

WAIVER OF PROCEDURAL RIGHTS

SWST specifically and voluntarily waives the following rights granted under NASD's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against SWST;
- 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 NAC and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, SWST 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.

SWST 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.

II.

ACCEPTANCE AND CONSENT

This matter arose out of a review, MRD200342329, conducted by the staff of NASD's Department of Market Regulation (the "staff") of SWST's compliance with NASD Marketplace Rule 5220(e) during the period April 1, 2003 through June 30, 2003.

A. SWST hereby accepts and consents, without admitting or denying the allegations or findings, and solely for the purposes of this proceeding and any other proceeding brought by or on behalf of NASD, or to which NASD 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 NASD:

1. On the dates reflected in Exhibit A, SWST was registered as an Intermarket Trading System/Computer Assisted Execution System ("ITS/CAES") Market Maker in the securities reflected therein. In each of the 100 specific instances reflected on Exhibit A, SWST failed to maintain continuous two-sided quotations in the absence of a grant of excused withdrawal or a functional excused withdrawal by NASD.
2. The conduct described in paragraph one constitutes separate and distinct violations of NASD Marketplace Rule 5220(e).
3. During the review period, 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 NASD, concerning the maintenance of continuous two-sided quotations in ITS/CAES. Specifically, the firm's supervisory system did not include written supervisory procedures providing for: (1) 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.
4. The conduct described in paragraph three constitutes a violation of NASD Conduct Rules 2110 and 3010.

B. SWST also consents to the imposition, at a maximum, of the following sanctions:

A censure, a fine of \$10,000 (composed of a \$5,000 fine for the NASD Marketplace Rule 5220(e) violations and a \$5,000 fine for the supervision violations), and an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraph three. 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, 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 three; and, (3) the date the revised procedures were implemented.

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

III.

OTHER MATTERS

- A. SWST understands that SWST may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. SWST understands that SWST 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 NASD, nor does it reflect the views of NASD or its staff.
- B. SWST agrees to pay any monetary sanctions imposed on SWST upon notice that this AWC has been accepted and that such payments are due and payable and has attached an Election of Payment form showing the method by which SWST proposes to pay any fine imposed.
- C. SWST specifically and voluntarily waives any right to claim that SWST is unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

Southwest Securities, Inc. certifies that SWST has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it, and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce SWST to submit it.

3/24/05
Date

Respondent
Southwest Securities, Inc.

By: Frederick H. Bennett, Jr.
Name: Frederick H. Bennett, Jr.
Title: Senior Vice President

Reviewed by:

Counsel for Respondent

Accepted by NASD:

6/3/05
Date

Thomas R. Gira
Thomas R. Gira
Senior Vice President
Department of Market Regulation
Signed on behalf of the Director of ODA, by
delegated authority

MRD200342329

Southwest Securities, Inc. ("SWST")

Exhibit A

#	Date	Firm	Issue	Quote Time	MP Bid	MP Ask	Next Quote Time	Missing Duration
1	04/01/03	SWST	DHY	9:31:11			16:00:15	6:29:04
2	04/01/03	SWST	BFK	14:15:40			15:53:58	1:38:18
3	04/01/03	SWST	BMN	14:17:35			15:54:47	1:37:12
4	04/02/03	SWST	MHN	10:39:53			13:05:19	2:25:26
5	04/03/03	SWST	PMG	11:49:03			12:00:02	0:10:59
6	04/03/03	SWST	HTR	15:48:22			16:00:20	0:11:58
7	04/04/03	SWST	MEN	14:50:11			16:00:25	1:10:14
8	04/07/03	SWST	MMT	10:17:59			11:55:12	1:37:13
9	04/07/03	SWST	MFL	10:43:31			11:16:03	0:32:32
10	04/07/03	SWST	TDF	11:56:08			16:00:36	4:04:28
11	04/07/03	SWST	GAB	11:56:23			16:00:22	4:03:59
12	04/08/03	SWST	MHY	10:26:04			10:54:37	0:28:33
13	04/08/03	SWST	MQT	13:41:14			15:48:08	2:06:54
14	04/08/03	SWST	MFL	15:05:19			15:36:40	0:31:21
15	04/08/03	SWST	MQT	15:48:08			16:00:26	0:12:18
16	04/09/03	SWST	BHK	11:21:03			16:00:15	4:39:12
17	04/09/03	SWST	BKT	14:31:10			14:53:35	0:22:25
18	04/11/03	SWST	BLN	15:47:10			16:00:08	0:12:58
19	04/14/03	SWST	BLE	15:02:33			15:25:35	0:23:02
20	04/14/03	SWST	BHK	15:23:09			16:00:14	0:37:05
21	04/14/03	SWST	NVX	15:23:22			16:00:26	0:37:04
22	04/16/03	SWST	MMU	9:51:44			10:06:28	0:14:44
23	04/16/03	SWST	MMT	14:11:37			15:23:13	1:11:36
24	04/22/03	SWST	MHN	14:38:26			15:26:49	0:48:23
25	04/23/03	SWST	PPT	12:23:15			13:03:08	0:39:53
26	04/29/03	SWST	MYI	15:06:33			16:00:21	0:53:48
27	04/30/03	SWST	BHD	13:35:40			14:30:24	0:54:44
28	05/01/03	SWST	PCN	12:52:03			13:03:03	0:11:00
29	05/01/03	SWST	PCN	14:29:50			14:48:24	0:18:34
30	05/02/03	SWST	TDF	13:45:29			16:00:35	2:15:06
31	05/02/03	SWST	MIN	15:31:45			15:45:57	0:14:12
32	05/05/03	SWST	BMN	13:10:09			16:00:08	2:49:59
33	05/07/03	SWST	MEN	14:25:45			14:38:24	0:12:39
34	05/07/03	SWST	BNA	14:40:12			16:00:08	1:19:56
35	05/07/03	SWST	MHY	15:02:11			15:32:43	0:30:32
36	05/08/03	SWST	MHN	13:25:54			14:43:44	1:17:50
37	05/08/03	SWST	MCA	15:44:05			16:00:19	0:16:14
38	05/13/03	SWST	HIX	10:55:35			14:04:57	3:09:22
39	05/13/03	SWST	PML	11:49:48			13:50:15	2:00:27
40	05/16/03	SWST	MUE	12:14:00			12:26:59	0:12:59
41	05/16/03	SWST	MEN	13:48:10			14:01:59	0:13:49
42	05/19/03	SWST	MHN	10:50:24			11:27:35	0:37:11
43	05/19/03	SWST	MHN	11:27:35			16:00:18	4:32:43
44	05/19/03	SWST	MVT	15:45:01			16:00:20	0:15:19
45	05/20/03	SWST	HTR	10:18:32			11:54:58	1:36:26
46	05/20/03	SWST	MCR	11:29:58			11:55:06	0:25:08
47	05/20/03	SWST	MHD	11:55:14			16:00:18	4:05:04
48	05/20/03	SWST	MFL	15:42:21			16:00:18	0:17:57
49	05/21/03	SWST	MIY	10:29:07			10:55:43	0:26:36
50	05/21/03	SWST	MVT	11:09:34			16:00:20	4:50:46

MRD200342329

Southwest Securities, Inc. ("SWST")

Exhibit A

#	Date	Firm	Issue	Quote Time	MP Bid	MP Ask	Next Quote Time	Missing Duration
51	05/21/03	SWST	MUJ	14:14:28			14:33:42	0:19:14
52	05/22/03	SWST	MFL	9:52:09			10:05:18	0:13:09
53	05/22/03	SWST	MFL	10:53:06			11:11:11	0:18:05
54	05/27/03	SWST	AFB	11:55:31			12:54:24	0:58:53
55	05/27/03	SWST	AFB	12:54:24			16:00:14	3:05:50
56	05/27/03	SWST	MCA	15:28:08			16:00:18	0:32:10
57	05/28/03	SWST	MYN	12:27:45			16:00:21	3:32:36
58	05/28/03	SWST	MHN	14:53:56			16:00:18	1:06:22
59	05/29/03	SWST	PPR	13:11:44			16:00:27	2:48:43
60	05/30/03	SWST	BNA	11:23:02			12:42:20	1:19:18
61	06/02/03	SWST	MHD	12:51:04			16:00:20	3:09:16
62	06/03/03	SWST	MFL	10:24:24			11:13:46	0:49:22
63	06/03/03	SWST	MYD	14:12:09			15:19:10	1:07:01
64	06/03/03	SWST	MUC	15:41:26			16:00:20	0:18:54
65	06/04/03	SWST	MHN	15:00:57			16:00:18	0:59:21
66	06/05/03	SWST	BKN	15:00:09			16:00:07	0:59:58
67	06/06/03	SWST	IIF	9:38:01			10:00:28	0:22:27
68	06/06/03	SWST	MHD	11:37:44			11:52:53	0:15:09
69	06/06/03	SWST	MQY	12:08:31			13:25:47	1:17:16
70	06/09/03	SWST	PMM	12:15:45			16:00:26	3:44:41
71	06/09/03	SWST	TDF	12:16:40			16:00:35	3:43:55
72	06/12/03	SWST	ZTR	15:47:03			16:00:40	0:13:37
73	06/13/03	SWST	MQY	10:45:23			12:54:03	2:08:40
74	06/16/03	SWST	ZTR	11:19:30			12:31:36	1:12:06
75	06/16/03	SWST	ZTR	12:31:36			16:00:40	3:29:04
76	06/16/03	SWST	MYI	15:15:02			15:28:37	0:13:35
77	06/17/03	SWST	MUH	15:48:49			16:00:20	0:11:31
78	06/19/03	SWST	MQT	10:32:33			15:13:32	4:40:59
79	06/19/03	SWST	BMT	15:13:21			16:00:08	0:46:47
80	06/19/03	SWST	MQT	15:13:32			16:00:20	0:46:48
81	06/19/03	SWST	MYI	15:13:44			16:00:21	0:46:37
82	06/20/03	SWST	MUC	15:00:59			16:00:20	0:59:21
83	06/20/03	SWST	PCN	15:05:48			16:00:29	0:54:41
84	06/23/03	SWST	ZTR	13:35:32			16:00:41	2:25:09
85	06/23/03	SWST	PCN	15:20:25			16:00:29	0:40:04
86	06/24/03	SWST	PPT	14:54:11			15:31:30	0:37:19
87	06/24/03	SWST	BRM	15:13:17			16:00:08	0:46:51
88	06/25/03	SWST	LEO	14:50:59			16:00:30	1:09:31
89	06/25/03	SWST	JTP	14:52:12			16:00:32	1:08:20
90	06/25/03	SWST	BNA	15:29:36			16:00:08	0:30:32
91	06/26/03	SWST	NVG	10:49:56			11:39:11	0:49:15
92	06/26/03	SWST	GIM	13:14:41			16:00:21	2:45:40
93	06/26/03	SWST	PMM	13:41:31			16:00:27	2:18:56
94	06/26/03	SWST	MCA	15:15:54			15:42:24	0:26:30
95	06/27/03	SWST	MQT	10:40:44			16:00:19	5:19:35
96	06/27/03	SWST	MYI	10:40:55			16:00:20	5:19:25
97	06/30/03	SWST	MVF	13:49:38			16:00:21	2:10:43
98	06/30/03	SWST	MMU	13:53:57			14:38:18	0:44:21
99	06/30/03	SWST	MQY	14:22:50			16:00:21	1:37:31
100	06/30/03	SWST	MHD	15:48:41			16:00:20	0:11:39



Statement of Corrective Action

This Corrective Action is submitted by the Respondent. It does not constitute factual or legal findings by NASD, nor does it reflect the views of the NASD, or its staff.

TO: Department of Enforcement
NASD/AMEX Regulation

RE: AWC 200342329 Southwest Securities Inc. Respondent
Broker-Dealer
CRD No. 6220

On behalf of Southwest Securities, Inc. (SWST) please find our response to the above referenced AWC.

In the NASD's findings, SWST was found to have failed to maintain two sided quotes in certain CQS securities. While SWST strives to obtain perfect compliance with the market making rules, systems and other issues sometime prevent achievement of that goal.

As demonstrated in the staff's examination, the Firm's compliance with the Display Rule has been very high. During the review period, the Firm made markets in approximately 670 listed stocks and had maintained its quotes with a high degree of accuracy. The review period was over a three-month span during which our traders were correctly quoting in excess of 60,000 daily quotes displayed on NASDAQ, plus intraday quotes. Compared to the 100 examples provided by staff. During the three-month period neither BRASS, nor the NASD, had an "Automated Quote Refresh" (AQR) for CQS securities.

While we relied on the BRASS system and reviewed BRASS generated exception reports we were actively in the process of retaining a new vendor. SWST changed our OMS vendor from BRASS to Bloomberg SSEOMS just weeks after the first inquiry from the NASD in September of 2003. We converted to Bloomberg in November of 2003 and the Bloomberg's AQR was initiated on November 13, 2003.

Prior to the time of the review period NASD staff had notified our traders when a problem with our quotes existed. This service was stopped by the NASD and contributed to the difficulty in identifying quotes that were in question.