

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 61768 / March 24, 2010

ADMINISTRATIVE PROCEEDING
File No. 3-13831

In the Matter of

SOUTHWEST SECURITIES, INC.,

Respondent.

**ORDER INSTITUTING ADMINISTRATIVE
AND CEASE-AND-DESIST PROCEEDINGS,
PURSUANT TO SECTIONS 15(b), 15B(c)(2)
AND 21C OF THE SECURITIES EXCHANGE
ACT OF 1934, MAKING FINDINGS, AND
IMPOSING REMEDIAL SANCTIONS AND A
CEASE-AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”) against Southwest Securities, Inc. (“Southwest” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b), 15B(c)(2) and 21C of the Securities Exchange Act of 1934, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent’s Offer, the Commission finds¹ that:

¹ The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Summary

1. These proceedings involve violations of the law concerning political contributions and municipal securities business by Southwest, a broker-dealer and municipal securities dealer. From December 2000 to July 2009, a sales person with the title of senior vice president in Southwest's public finance office ("senior vice president"), engaged in solicitation activities that made him a "municipal finance professional" under Municipal Securities Rulemaking Board ("MSRB") Rule G-37. The senior vice president made political contributions to an incumbent for office with influence over the awarding of municipal securities business by certain state issuers in Massachusetts. Within two years of these political contributions, Southwest engaged in municipal securities business with the issuers associated with the incumbent who received the political contributions. Southwest's engagement in municipal securities business with these issuers violated Section 15B(c)(1) of the Exchange Act and MSRB Rule G-37(b).² The contributions were not disclosed on MSRB Forms G-37 in violation of MSRB Rule G-37(e).

Respondent

2. Southwest, incorporated in Delaware in 1991, is a broker-dealer registered with the Commission pursuant to Section 15(b) of the Exchange Act since September 1, 1992 and with the MSRB as a municipal securities dealer as defined in Sections 3(a)(30) and 3(a)(31) of the Exchange Act. Southwest's principal place of business is in Dallas, Texas. At all times relevant to these proceedings, Southwest was a wholly-owned subsidiary of SWS Group, Inc.

Background

3. Between December 2000 and July 2009, Southwest's senior vice president engaged in activities that constituted solicitation of municipal securities business from certain issuers on behalf of Southwest. As a result, the senior vice president was a "municipal finance professional" (MFP) associated with Southwest under MSRB Rule G-37.³

² Rule G-37(b) provides that no broker, dealer or municipal securities dealer shall engage in municipal securities business with an issuer within two years after any contribution to an official of such issuer made by: (A) the broker, dealer or municipal securities dealer; (B) any municipal finance professional associated with such broker, dealer or municipal securities dealer; or (C) any political action committee controlled by the broker, dealer or municipal securities dealer or by any municipal finance professional.

³ Rule G-37(g)(iv)(B) provides that "the term 'municipal finance professional' [includes] . . . any associated person [of a broker, dealer or municipal securities dealer] who solicits municipal securities business." According to MSRB interpretations, soliciting municipal securities business includes, but is not limited to, responding to issuer requests for proposals. See MSRB Notice 2006-15 (June 15, 2006). The senior vice president engaged in municipal securities solicitation activities by signing cover letters attached to responses to requests for qualifications ("RFQ") for underwriting business and by having his name appear in the responses to the RFQs as a member of Southwest's underwriting team. Although the senior vice president engaged in both of these solicitation activities, either one by itself was sufficient to make the senior vice president an MFP.

4. Between 2003 through 2008, the senior vice president contributed \$1,625 to an incumbent who was also at the time of the contributions a candidate for elective office in the Commonwealth of Massachusetts (hereinafter “the issuer official”).⁴ The contributions were made through seven different checks during two election cycles. Specifically, on February 8, 2003, March 25, 2004 and June 22, 2005, the senior vice president contributed \$250 to the issuer official through three different personal checks, for a total of \$750. These contributions were all made before the primary election in 2006. The contributions on March 25, 2004 and June 22, 2005 placed the senior vice president’s total contributions for the primary election above the \$250 *de minimis* exception.⁵ In addition, on December 15, 2006, May 29, 2007, December 10, 2007 and April 28, 2008, before the scheduled primary election in 2010, in which the incumbent expected to be a candidate, the senior vice president contributed \$875 to the issuer official through four different personal checks. Each of the contributions on May 29, 2007, December 10, 2007 and April 28, 2008 placed the senior vice president’s total contributions above the \$250 *de minimis* exception.

5. The issuer official is responsible for, or has the authority to appoint persons who are responsible for, the hiring of brokers, dealers, or municipal securities dealers for municipal securities business by the Commonwealth of Massachusetts and certain related state governmental units (hereinafter “the Issuers”).

6. Under Rule G-37, each of these contributions above the \$250 *de minimis* exception triggered a two-year ban on municipal securities business with the Issuers, starting with the dates of the contributions. Accordingly, during the first election cycle, Southwest was prohibited from engaging in municipal securities business with the Issuers for the period March 25, 2004 to June 22, 2007. During the second election cycle, Southwest was prohibited from

⁴ Rule G-37(g)(vi) defines an “official of such issuer” as any person who was, at the time of the contribution, an incumbent, candidate or successful candidate: (A) for elective office of the issuer which office is directly or indirectly responsible for, or can influence the outcome of, the hiring of a broker, dealer or municipal securities dealer for municipal securities business by the issuer; or (B) for any elective office of a state or of any political subdivision, which office has authority to appoint any person who is directly or indirectly responsible for, or can influence the outcome of, the hiring of a broker, dealer or municipal securities dealer for municipal securities business by an issuer.

⁵ A *de minimis* exception to Rule G-37(b) allows an MFP to contribute up to \$250 per candidate per election if the MFP is entitled to vote for the candidate. If an issuer official is involved in a primary election prior to the general election, an MFP who is entitled to vote for such official can contribute a total of \$500 to that official—up to \$250 for the primary and up to \$250 for the general election. Although an MFP is permitted to contribute a total of \$500 per election cycle, the rule limits contributions to \$250 before the primary, with an additional \$250 allowed after the primary for the general election. See, e.g., MSRB G-37 Q&As, Q&A No. II.8 (May 24, 1994); Pryor, McClendon, Counts & Co., Inc. et al., Exchange Act Release No. 48095 (June 26, 2003), 2003 SEC LEXIS 1503 (“Rule G-37 limited contributions to \$250 before the primary, with an additional \$250 allowed after the primary for the general election.”).

engaging in municipal securities business with the Issuers for the period May 29, 2007 to April 28, 2010.

7. Within two years after the above non-*de minimis* contributions, Southwest participated as co-manager for a total of 19 negotiated underwritings by the Issuers totaling approximately \$14 billion. For its roles in the 19 underwritings, Southwest received gross income in the amount of \$348,154.

8. The above non-*de minimis* contributions were not disclosed in Southwest's quarterly reports to the MSRB on Form G-37.

Violations

9. Section 15B(b) of the Exchange Act established the MSRB and empowered it to propose and adopt rules with respect to transactions in municipal securities by brokers, dealers, and municipal securities dealers. Section 15B(c)(1) of the Exchange Act prohibits a broker, dealer or municipal securities dealer from using the mails or any means or instrumentality of interstate commerce to effect any transaction in, or to induce or attempt to induce the purchase or sale of, any municipal security in contravention of any rule of the MSRB. As a municipal securities dealer, Southwest was subject to Section 15B(c)(1) of the Exchange Act and the MSRB rules.

10. As a result of the conduct described above, Southwest willfully violated MSRB Rule G-37(b), which prohibits brokers, dealers or municipal securities dealers from engaging in municipal securities business with an issuer within two years after any contribution to an official of such issuer made by (i) the broker, dealer or municipal securities dealer; (ii) any municipal finance professional associated with such broker, dealer or municipal securities dealer; or (iii) any political action committee controlled by the broker, dealer or municipal securities dealer or by any municipal finance professional, unless the contribution is exempt.

11. As a result of the conduct described above, Southwest willfully violated Rule G-37(e), which requires brokers, dealers, or municipal securities dealers to file quarterly reports with the MSRB disclosing contributions to any official of a municipal securities issuer made by, among others, each municipal finance professional associated with such broker, dealer, or municipal securities dealer.

12. As a result of Southwest's willful violations of MSRB Rules G-37(b) and G-37(e), Southwest willfully violated Section 15B(c)(1) of the Exchange Act.⁶

⁶ Rule G-37 is a broad prophylactic measure. Finding a violation of Rule G-37(b), Rule G-37(e) and Section 15B(c)(1) of the Exchange Act does not require a showing of scienter or a *quid pro quo*. A willful violation of the securities laws means merely "that the person charged with the duty knows what

Southwest's Remedial Efforts

In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Respondent.

IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent Southwest's Offer.

Accordingly, pursuant to Sections 15(b), 15B(c)(2), 21B and 21C of the Exchange Act, it is hereby ORDERED that:

A. Respondent Southwest cease and desist from committing or causing any violations and any future violations of Section 15B(c)(1) of the Exchange Act, MSRB Rule G-37(b) and MSRB Rule G-37(e).

B. Respondent Southwest shall, within 10 days of the entry of this Order, pay disgorgement of \$348,154 and prejudgment interest of \$71,993 to the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600. Payment shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies Southwest Securities, Inc. as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to John T. Dugan, Associate Regional Director, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, Suite 2300, Boston, MA 02110.

C. Respondent Southwest shall, within 10 days of the entry of this Order, pay a civil money penalty in the amount of \$50,000 to the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. 3717. Such payment shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies Southwest Securities, Inc. as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order

he is doing.” *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor “also be aware that he is violating one of the Rules or Acts.” *Id.* (quoting *Gearhart & Otis, Inc. v. SEC*, 348 F.2d 798, 803 (D.C. Cir. 1965)).

or check shall be sent to John T. Dugan, Associate Regional Director, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, Suite 2300, Boston, MA 02110.

By the Commission.

Elizabeth M. Murphy
Secretary