



FOR IMMEDIATE RELEASE

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SOUTHWEST SECURITIES TO PAY \$10 MILLION TO SETTLE SEC AND NYSE SUPERVISION CHARGES, RELATING TO FRAUDULENT MARKET TIMING AND LATE TRADING BY SOUTHWEST REGISTERED REPRESENTATIVES

**Three Southwest Managers and Two Brokers
Also Named in Enforcement Proceedings**

Washington, D.C., Jan. 10, 2005 – The Securities and Exchange Commission and the New York Stock Exchange today announced the institution and settlement of enforcement proceedings against Southwest Securities, Inc., a Dallas, Texas based broker-dealer and investment adviser, and three of its managers. According to the SEC and NYSE, Southwest and the managers failed reasonably to supervise brokers in Southwest’s downtown Dallas branch office who engaged in fraudulent mutual fund market timing schemes, late trading of mutual fund shares, or both.

The SEC also announced that it filed a civil action in U.S. district court in Dallas today, against two former Southwest brokers, for allegedly engaging in a fraudulent market timing scheme. In that action, the SEC seeks injunctions, disgorgement of illicit profits, and civil money penalties, based on allegations that the two brokers committed securities fraud.

In settlement of the SEC and NYSE actions, Southwest has agreed to pay a total of \$10 million, consisting of \$2 million in disgorgement and an \$8 million civil money penalty, and to undertake a number of measures to prevent future misconduct. The managers have agreed to settlements that include payments of disgorgement and civil money penalties totaling \$275,000, as well as 12-month suspensions from association with a broker-dealer or investment adviser in any supervisory capacity. As part of the settlement, the firm and the managers neither admitted nor denied the SEC and NYSE findings.

Harold F. Degenhardt, Director of the SEC’s Fort Worth Office, remarked, “The SEC and NYSE actions against Southwest and three of its managers underscore the responsibility of broker-dealers and their managers to respond swiftly and completely when confronted with indications of late trading and improper market timing by their employees and customers.” Spencer C. Barasch, Associate Director and head of

enforcement at the SEC's Fort Worth office, added, "The actions against Southwest, its managers, and the registered representatives demonstrate the continuing resolve of the SEC and the NYSE to protect mutual fund investors from improper trading practices."

Susan Merrill, Chief of Enforcement, NYSE Regulation, said, "This action sends a strong message that member firms and their managers must diligently supervise their mutual fund trading business to prevent and detect market timing and late trading. They cannot ignore red flags that should alert them to their brokers' improper conduct."

"Market timing" refers to the practice of short term buying and selling of mutual fund shares in order to exploit inefficiencies in mutual fund pricing. Although market timing is not *per se* illegal, many mutual funds try to prevent it because it tends to harm long-term mutual fund shareholders. "Late trading" refers to the practice of placing orders to buy or sell mutual fund shares after market close at 4:00 ET, but at the net asset value (NAV), or price, determined at the market close. Late trading enables the trader to profit from knowledge of market moving events that occur after 4:00 ET, but are not reflected in that day's fund share price. Late trading is illegal.

According to the SEC and the NYSE, the fraudulent market timing schemes sought to circumvent trading restrictions that mutual fund companies imposed on Southwest brokers and accounts, by concealing from mutual fund companies improper market timing activities of Southwest brokerage customers. The SEC and NYSE found and alleged that more than 30 fund companies, representing hundreds of individual mutual funds, detected market timing trades by Southwest customers, and attempted to prevent further market timing by barring future trades, either in particular accounts or by a particular Southwest broker or branch office. In response, according to the SEC and the NYSE, Southwest brokers used "masking activities," such as multiple customer accounts, multiple broker identification numbers, and multiple branch office numbers, to disguise their customers' market timing trades and trick the fund companies into accepting the trades. For example, according to the SEC and NYSE, brokers in Southwest's downtown Dallas branch office executed trades for a single hedge fund adviser customer, using 21 accounts held by nine customer-affiliated entities, and using three broker identification numbers. According to the SEC and NYSE, the brokers used these masking tactics for the sole purpose of circumventing trading restrictions imposed by the fund companies.

The SEC and the NYSE found that the managers failed reasonably to supervise the brokers, by failing to investigate or respond appropriately to red flags that should have alerted them to the brokers' improper conduct. According to the SEC and NYSE findings, the red flags included hundreds of notices, warnings, complaints and trading restrictions ("block notices") sent by mutual fund companies in response to the brokers' mutual fund market timing activities, and also included the brokers' requests for multiple account numbers per customer, and for additional broker identification numbers. The SEC and NYSE also found that Southwest failed to implement procedures designed to detect and prevent late trading. According to the NYSE and the SEC, Southwest also violated rules against late trading, and SEC rules that require broker-dealers to make and keep certain business records, including order tickets and electronic messages.

The settled SEC and NYSE proceedings name Southwest and three of its managers, as follows:

Southwest – The firm is a wholly owned subsidiary of SWS Group, Inc., a publicly traded company listed on the NYSE. The firm is a member of the NYSE, the National Association of Securities Dealers (NASD), the Chicago Stock Exchange, and the American Stock Exchange.

Daniel R. Leland – Leland was the president and CEO of Southwest, and in that capacity he supervised all Southwest brokerage operations other than clearing operations. In settling the SEC and NYSE actions, Leland has agreed to pay disgorgement of \$1 and a civil money penalty of \$200,000, in addition to being suspended for twelve months from association with a broker-dealer or investment adviser in any supervisory capacity.

Kerry M. Rigdon – Rigdon was a senior vice president and the director of Southwest's Private Client Group. In settling the SEC and NYSE actions, Rigdon has agreed to pay disgorgement of \$1 and a civil money penalty of \$50,000, in addition to being suspended for twelve months from association with a broker-dealer or investment adviser in any supervisory capacity.

Kevin J. Marsh – Marsh was a vice president and the branch manager of Southwest's downtown Dallas branch office. In settling the SEC and NYSE actions, Marsh has agreed to pay disgorgement of \$1 and a civil money penalty of \$25,000, in addition to being suspended for twelve months from association with a broker-dealer or investment adviser in any supervisory capacity.

The SEC also named the following Southwest brokers as defendants in its civil action in U.S. district court in Dallas, alleging that they engaged in a fraudulent mutual fund market timing scheme:

Scott B. Gann – Gann was a senior vice president and registered representative in Southwest's Private Client Group. Gann worked in the firm's downtown Dallas branch office.

George B. Fasciano – Fasciano was a vice president and registered representative in Southwest's Private Client Group. Fasciano also worked in the firm's downtown Dallas branch office.

The SEC and the NYSE acknowledge the assistance of the NASD in connection with this investigation.

For further information contact:

Securities and Exchange Commission

Harold F. Degenhardt
District Director
(817) 900-2607

Spencer C. Barasch
Associate District Director
(817) 978-6425

New York Stock Exchange

Scott Peterson
Managing Director, Communications
(212) 656-4089