

Our Customer Protection

A summary explanation of the protection provided to our customers

Reading the booklet "How SIPC Protects Investors" is an essential first step in becoming acquainted with the protection of securities accounts provided to our customers. It can be read and copied on the Website of the **Securities Investor Protection Corporation** at www.sipc.org or your investment executive can furnish you with a copy. In addition, we have purchased from underwriting syndicates at **Lloyd's of London** additional security protection to cover the net equity of customer's accounts up to an aggregate of \$100 million.

Our capital strength – approximately \$200 million – also protects our customers. Historically, the firm has always maintained greater capital than required by any regulatory authority.

KEY PROVISIONS

The following presents a simplified summary of the most important provisions of the additional protection we have purchased. It does not contain the legal documents that actually govern coverage. The full policy terms, conditions and limitations always govern. This summary does not alter the terms of the excess securities policy in any way and cannot be used to support a claim in the event of loss.

There are several important conditions to the excess securities protection.

- Coverage is provided in addition to pro-rata return by a Trustee and the \$500,000 SIPC limit provided by the Securities Investor Protection Act of 1970 as amended.
- The policy covers only customer claims for loss of securities that would have been recoverable except for SIPC's limit.
- When SIPC files application for a protective court decree in accordance with the Securities Investor Protection Act, the filing date shall be the date of valuation of securities. Trustee returns and SIPC and supplementary insurer protection does not apply to any decline in the market value of your securities.
- The policy is renewable annually on March 30.

ADEQUACY OF COVERAGE

In the unlikely event of a liquidation process under the provisions of the Securities Investor Protection Act, all customers would share proportionately in any shortage in cash and securities belonging to customers. Here is a specific example: Southwest Securities typically holds \$19.5 billion of customer assets - most are physically located at the Depository Trust Company, a central facility established to hold and deliver securities for brokerage firms and commercial banks.

For purpose of example, let's assume a failure with a very large initial shortage of \$500 million. Although we believe our internal controls and safeguards would prevent such a shortage from occurring, it would be 3% of the \$19.5 billion we hold for customers. A SIPC trustee would, therefore, return from customer property on hand 97% of each customer's account.

In addition, under SIPC* each customer would be entitled to replacement of any shortage up to \$500,000 (including up to \$100,000 in cash) and would share with other non-customer creditors in any remaining firm assets. The example of a \$500 million shortage is illustrated in the table below.

Customer Account Valued at	Customer's Pro-rata Share of Assets	Amount of SIPC Assistance	Customer's Amount From the Policy	Customer Loss Equals
\$50,000	\$48,500	\$1,500	\$0	\$0
\$1,000,000	\$970,000	\$30,000	\$0	\$0
\$5,000,000	\$4,850,000	\$150,000	\$0	\$0
\$18,000,000	\$17,460,000	\$500,000	\$40,000	\$0
\$25,000,000	\$24,250,000	\$500,000	\$250,000	\$0
\$40,000,000	\$38,800,000	\$500,000	\$700,000	\$0

Expressed in general terms, federal law requires broker/dealers to:

- Maintain accurate records of securities and monies they hold for each customer.
- Promptly take possession and control of securities purchased and hold customer securities identified as such in approved locations.
- Make weekly computations of customer money balances and cash representing any customer securities not actually in possession and to deposit any such balances in bank accounts identified as being for the benefit of customers.

The law permits customer cash balances to be used to finance fully collateralized margin loans. Southwest Securities, Inc. is subject to periodic reviews by regulatory organizations, including the New York Stock Exchange, the Financial Industry Regulatory Authority, and the Securities and Exchange Commission. Southwest Securities, Inc. makes a diligent effort to comply with all securities laws, including those designed to safeguard customer assets.

*See SIPC booklet for all definitions. For example, the securities we hold in customer name without stock powers are returned separately without affecting the distribution shown in the table. All examples are assumed to be accounts with less than \$100,000 in cash balances.

