

# Our Customer Protection

A Summary Explanation of the Four Types of Protection Provided to Our Customers

Your securities account has four types of protection against physical loss or misplacement.

- ❖ Southwest Securities' \$15 million blanket bond insures our customers against individual acts of fraud.
- ❖ Our customers are protected by our capital strength, currently more than \$80 million for Southwest Securities, Inc. Historically, the firm has always maintained greater capital than required by any regulatory authority.
- ❖ The Securities Investor Protection Corporation (SIPC) provides primary coverage against physical loss following a liquidation.
- ❖ With our Excess Securities Bond, your aggregate protection is \$24.5 million per account above SIPC.

The coverage provided by SIPC is fully described in the booklet, "How SIPC Protects You," which is available upon request from your investment executive. Southwest Securities supplements the SIPC coverage with a bond purchased from a major insurance company. This excess securities bond adds additional protection, up to \$24.5 million per account, from loss in the event of a liquidation proceeding as governed by Federal law.

## KEY PROVISIONS

The following presents a simplified summary of the most important provisions of the Excess Securities Bond. 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 Bond 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 Bond. In general, these provisions are:

- ✓ The bond is subject to and shall follow all terms, definitions, conditions and limitations of the Securities Investor Protection Act of 1970 as amended.
- ✓ The bond covers only customer claims for loss of securities which would have been recoverable by the customer from the Securities Investor Protection Corporation. Coverage is only for claims in excess of SIPC's limit of liability for securities.
- ✓ When the SIPC files application for a protective court decree in accordance with the Securities Investor Protection Act, the filing date shall be the date of discovery for loss of securities sustained at any time prior to that date.
- ✓ The bond became effective on May 20, 1998 at 12:01 a.m. and is renewable annually.

## ADEQUACY OF COVERAGE

In the unlikely event of a liquidation process under the provisions of the Securities Investor Protection Act, any shortage in cash and securities belonging to customers would be shared proportionately by all customers. Here is a specific example:

Our firm typically holds \$17 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.

During SIPC's history, the largest initial shortage of customer property in any failed broker/dealer was \$39.3 million. Although we cannot imagine any event which would cause such a shortage in our firm, a shortage of this amount would be less than one-quarter of 1 percent of the \$17 billion we hold for customers. A SIPC trustee would therefore return from customer property on hand more than 99.75% 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. If you assume a \$120 million shortage, three times the largest ever experienced, the result would be as illustrated in the example in the table on the next panel.

Customer Account Valued at	Customer's Pro-rata Share of Assets**	Amount of SIPC Assistance	Amount From the Bond	Customer Loss Equals
\$ 50,000	\$ 49,500	\$ 500	\$ 0	\$ 0
\$ 1,000,000	\$ 990,000	\$ 10,000	\$ 0	\$ 0
\$ 5,000,000	\$ 4,950,000	\$ 50,000	\$ 0	\$ 0
\$ 10,000,000	\$ 9,900,000	\$ 100,000	\$ 0	\$ 0
\$100,000,000	\$ 99,000,000	\$ 500,000	\$ 500,000	\$ 0

\*\* All examples are assumed to be accounts with less than \$100,000 in cash balances.

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

- (a) maintain accurate records of securities and monies they hold for each customer,
- (b) promptly take possession and control of securities purchased and hold customer securities identified as such in approved locations, and
- (c) 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 is subject to periodic reviews by regulatory organizations, including the New York Stock Exchange, the National Association of Securities Dealers, and the Securities and Exchange Commission. Our firm 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 on the next panel.

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