

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
OFFICE OF HEARING OFFICERS**

Department of Market Regulation, Complainant, v. Wedbush Securities Inc., (CRD No. 877), Respondent.	Disciplinary Proceeding No. 20070077690 Hearing Officer - MAD <u>ORDER ACCEPTING OFFER OF SETTLEMENT</u> Date:
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INTRODUCTION

Disciplinary Proceeding No. 20070077690 was filed on March 30, 2012, by the Department of Market Regulation of the Financial Industry Regulatory Authority (FINRA or Complainant). A hearing on the merits was held from March 19, 2013 to March 22, 2013. Respondent Wedbush Securities Inc. (Wedbush or Respondent) submitted an Offer of Settlement (Offer) to Complainant on May 2, 2013. Pursuant to FINRA Rule 9270(e), the Complainant and the Hearing Panel have accepted the uncontested Offer. Accordingly, this Order now is issued pursuant to FINRA Rule 9270(e)(3). The findings, conclusions and sanctions set forth in this Order are those stated in the Offer as accepted by the Complainant and approved by the National Adjudicatory Council (NAC).

Under the terms of the Offer, Respondent has consented, without admitting or denying the allegations of the Complaint (as amended by the Offer), and solely for the purposes of this proceeding, and any other proceeding brought by or on behalf of FINRA, or to which FINRA is a party, to the entry of findings and violations consistent with the allegations of the Complaint

(as amended by the Offer), and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA.

BACKGROUND

Wedbush is currently, and was during all times relevant hereto, a member of FINRA and a registered broker-dealer with the United States Securities and Exchange Commission ("SEC"). The firm registered with FINRA in July 1955. The firm formerly did business under the name Wedbush Morgan Securities Inc. FINRA retains jurisdiction over Wedbush because it is currently registered as a FINRA member firm.

At all relevant times, Wedbush was one of the largest private, independent brokerage firms, providing a broad range of brokerage and advisory services to institutional and private clients. The firm also provided sponsored access and direct market access ("SA/DMA") to a large number of broker-dealers and other market participants who accessed market centers using a Wedbush-registered Market Participant Identifier ("MPID"). As relevant here, in 2006 and beyond, Wedbush was one of the largest providers of liquidity on Nasdaq and, once it began reporting its SA/DMA-generated order activity, accounted for a significant percentage of all reporting to the Order Audit Trail System ("OATS").

The firm was organized into three main divisions: Capital Markets, Private Client Services, and Correspondent Services. Although the first two divisions may have generated some OATS reporting obligations, it was the third division, Correspondent Services, that accounted for a vast majority of the firm's OATS reporting obligations during the relevant time period. Correspondent Services engaged in both traditional correspondent services and SA/DMA.

The firm has the following relevant disciplinary history relating to OATS reporting:

- In October 2010, FINRA accepted the firm's AWC (20080132252) in which it agreed to a censure and a total fine of \$28,000, which included a \$7,500 fine for violations of the rules applicable to OATS reporting as part of the firm's 2008 Trading and Market Making Surveillance Examination;
- In April 2010, FINRA accepted the firm's AWC (20080123149) in which it agreed to a censure and a total fine of \$13,500, which included a \$7,500 fine for violations of the rules applicable to OATS reporting from July 1 to September 30, 2007;
- In November 2008, FINRA accepted the firm's AWC (20060070311) in which it agreed to a censure and a fine of \$25,000 for violations of the rules applicable to OATS reporting from September 1, 2006 to August 31, 2007;
- In September 2008, FINRA accepted the firm's AWC (20070104395) in which it agreed to a censure and a fine of \$7,500 for violations of the rules applicable to OATS reporting in July 2007; and
- In September 2008, FINRA accepted the firm's AWC (20060052881) in which it agreed to a censure and a total fine of \$22,500, which included a \$5,000 fine for violations of the rules applicable to OATS reporting in June 2006.

The firm has the following relevant disciplinary history relating to supervision:

- In September 2012, FINRA accepted the firm's Offer of Settlement (20080127380-02) in which the firm agreed to a censure and a fine of \$375,000 for, among other things, failing to establish, maintain, and enforce a supervisory system and written supervisory procedures related to the firm's business in variable annuities and other areas of general sales practices, and for failing to supervise registered persons;
- *Dep't of Enforcement v. Wedbush Securities, Inc.*, 2012 FINRA Discip. LEXIS 59 (OHO Aug. 2, 2012), in which the firm was fined \$300,000 for reporting failures with respect to Forms U4 and U5, NYSE Form RE-3, and NASD Rule 3070 and for failing to supervise its registration reporting;
- In May 2012, BZX Exchange, Inc. accepted the firm's AWC in which it agreed to a censure, a fine of \$75,000, and restitution of \$73,326 for trading after market hours in its proprietary account and failing to have adequate written supervisory procedures reasonably designed to achieve compliance with exchange rules relating to the obligations of an exchange participant when exercising options contracts;

- In June 2010, Nasdaq accepted the firm's AWC (20080152870) in which it agreed to a censure and a fine of \$10,000 for violations of Nasdaq Rules 2110 and 3010 regarding the firm's failure to have adequate written supervisory procedures reasonably designed to achieve compliance with applicable securities laws, rules, and regulations concerning the prevention of erroneous orders and transactions and frivolous clearly erroneous transaction complaints.
- In January 2009, after a hearing before an NYSE hearing board the firm was fined \$100,000 and found subject to findings that, in connection with its branch office located in Paris, France, the firm failed to provide for appropriate supervisory procedures and controls with respect to, among other things, due diligence in opening customer accounts, creation and maintenance of order tickets and execution reports, registration of personnel, implementation of policies and procedures designed to achieve compliance with the Bank Secrecy Act, and withdrawals from its reserve accounts, in violation of NYSE Rules 342, 345, 405, 440, 445, 472, and SEC Rules 15c3-3, 17a-3 and 17a-4;
- In September 2008, FINRA accepted the firm's AWC (20060052881) in which the firm agreed to a censure and fine of \$22,500 for engaging in inaccurate trading reporting, creating inaccurate and incomplete order tickets, failing to prepare and maintain a proper trading ledger, and failing to establish and maintain a supervisory system and adequate written supervisory procedures relating to compliance with SEC Rule 605, in violation of SEC Rule 17a-3 and Rule 605 of Regulation NMS and NASD Rules 2110, 3010, 3110, and 6995;
- In March 2008, after a hearing before the full board of the NYSE (NYSE HBD-06-196), the firm was fined \$200,000 and found subject to findings that it submitted inaccurate trade information in response to blue sheet requests and failed to have adequate supervisory systems and procedures for overseeing areas responsible for complying with blue sheet requests and for following up to ensure compliance, in violation of NYSE Rules 410A, 401, and 343;
- In January 2007, NASD accepted the firm's AWC (20050002518) in which it agreed to a censure and a total fine of \$35,000, which included a fine of \$15,000 for supervision violations, including supervision relating to personnel registration and qualifications, order handling and execution, anti-intimidation and coordination, trade reporting, customer sales transactions, short sales transactions, OATS reporting, books and records, and best execution; and
- In December 2006, NASD accepted the firm's AWC (E0220040229) in which the firm agreed to a censure and a fine of \$150,000 for, among others things, failing to establish and maintain systems and procedures reasonably designed to prevent and detect late trading in mutual funds.

FINDINGS AND CONCLUSIONS

It has been determined that the Offer be accepted and that findings be made as follows:

Summary

1. This matter involves several *billion* violations of the Order Audit Trail System (“OATS”) reporting rules from January 1, 2005 through December 31, 2012 (the “relevant time period”).¹ The Complaint alleged four types of OATS reporting violations between January 1, 2005 and December 31, 2010. First, from January 1, 2005 through July 7, 2006, Wedbush Securities Inc. (“Wedbush” or “the firm”) failed to transmit to OATS approximately 1.6 billion Reportable Order Events (“ROEs”), the overwhelming majority (99.92 percent) of its OATS reporting obligation for this time period. Second, during four review periods from 2006 through 2010, the firm submitted approximately 270 million ROEs late, with the firm consistently having late reporting violation rates many times higher than its peer group and industry averages. Third, the firm failed to repair and resubmit more than 12.7 million ROEs that were rejected because of context or syntax errors. Fourth, the firm had more than 45 million order reports that OATS was unable to link to the related order routed to Nasdaq or to the corresponding new order report because of inaccurate, incomplete, or improperly formatted data. In addition to the violations alleged in the Complaint, from September 1, 2010 through December 31, 2012, the firm had numerous OATS reporting violations for non-reporting, over-reporting, late reporting, failure to repair repairable rejected ROEs, failure to repair repairable rejected ROEs within the required five business days, and failure to populate the proper ROE reconciliation identifier on resubmitted ROEs. For example, from May 1, 2012 through August 31, 2012, the firm submitted more than 607 million ROEs late, representing 4.48 percent of the firm’s OATS

¹ The Complaint alleged misconduct occurring between January 1, 2005 and December 31, 2010. The relevant time period has been expanded in the Offer to include misconduct through December 31, 2012.

submissions during that time period. Also, by way of illustration, from October 1, 2012 through December 31, 2012, the firm failed to repair and resubmit 58,796,310 ROEs, representing 81.54 percent of all rejected repairable ROEs during that time period.

2. In addition, the firm did not consistently conduct the daily and monthly supervisory reviews required by its written supervisory procedures, nor did it maintain the required daily and monthly supervisory logs. Likewise, the firm's supervisory system, which consisted almost entirely of addressing violations on an ad hoc basis, was not reasonably designed to achieve compliance with the OATS reporting rules.

3. Moreover, the Vice President in charge of Correspondent Services—the business unit primarily at issue here—was not properly registered during a 34-month period.

OATS Background

4. The OATS system was developed to be part of an integrated audit trail of order, quote, and trade information. OATS data was transmitted to FINRA via a Firm Order Report ("FORE") file, which contained one or more ROEs. A ROE was a record representing an event in the life cycle of an order (*e.g.*, order receipt, order cancellation, order execution, *etc.*). The types of OATS reportable orders have been phased in over time:

- Phase 1 (beginning March 1, 1999): electronic orders handled by market makers and ECNs in Nasdaq-listed equity securities
- Phase 2 (beginning August 1, 1999): electronic orders handled by all FINRA member firms in Nasdaq-listed equity securities
- Phase 3 (beginning July 10, 2006): electronic and manual orders handled by all FINRA members firms in Nasdaq-listed equity securities
- Expansion to OTC Equity Securities (beginning February 4, 2008): electronic and manual orders handled by all FINRA members firms in Nasdaq-listed and OTC equity securities

- Expansion to NMS stocks (beginning November 28, 2011): electronic and manual orders handled by all FINRA members in all NMS stocks

An “electronic order” included any order captured by a FINRA member in an electronic order-routing or execution system. In contrast, “manual orders” included any order captured by a FINRA member other than in an electronic order-routing or execution system.

5. OATS was developed by FINRA to reconstruct markets promptly, effectively surveil them, and enforce various rules and regulations applicable to FINRA member firms. As stated by the SEC, OATS is “a comprehensive audit trail, beginning with the time an order is placed and continuing to record the life of the order through the process of execution.” The SEC has further recognized that OATS is “essential to maintaining the integrity” of the markets, and is “an important regulatory tool that substantially enhances [FINRA’s] ability to conduct surveillance of its member firms.”

OATS Reporting Violations

6. During the relevant time period, Wedbush repeatedly engaged in four types of OATS reporting violations: (A) failure to report; (B) late reporting; (C) failure to repair rejected ROEs; and (D) failure to match to other exchange or trade data due to incomplete, inaccurate, or improperly formatted data. These violations involved a pattern or patterns of misconduct that occurred over extended periods of time.

A. Wedbush Failed to Report Billions of ROEs

7. Wedbush permitted SA/DMA clients to use market access systems to electronically route orders directly to Nasdaq and to electronic communications networks (“ECNs”) using a Wedbush MPID. As executing broker, Wedbush had an OATS reporting obligation for these orders. From January 1, 2005 through July 7, 2006 (the last trade date prior

to the initiation of Phase 3), the firm failed to report approximately 1.6 *billion* ROEs, which constituted 99.92 percent of the firm's OATS reporting obligation during that period.

8. In addition, in three reviews subsequent to July 2006, the firm failed to submit approximately 2.9 million ROEs attributable to secondary MPIDs that Wedbush used to segregate SA/DMA client activity. These ROEs were not submitted until FINRA apprised the firm of the non-reporting.

9. Although the firm's written supervisory procedures required a periodic review to determine whether all required information was being reported, the firm failed to report more than 99 percent of its OATS reportable activity for several years.

B. Wedbush Consistently Reported ROEs Late

10. NASD Rule 6955 and FINRA Rule 7450² state that order information shall be transmitted in a manner prescribed by FINRA. The OATS Reporting Technical Specifications required that events that occurred during a particular "OATS business day" be reported by a certain deadline the following calendar day. That deadline was 4:00 a.m. ET until August 19, 2007; 5:00 a.m. ET until October 17, 2011; and 8:00 a.m. ET thereafter. An OATS business day begins at 16:00:01 ET on one market day and ends at 16:00:00 ET the next market day. Thus, for example, an event that occurred at 15:58:00 on Friday was required to be reported by the applicable time on Saturday morning. In the four reviews cited in the Complaint, the firm transmitted approximately 270 million ROEs after the applicable reporting deadline.

11. Prior to July 2006, Wedbush was reporting only a few thousand ROEs per day. On July 10, 2006, however, as a result of its inclusion of SA/DMA activity, the firm attempted to

² NASD Rule 6955 was transferred without change to FINRA's Consolidated Rulebook and codified as FINRA Rule 7450, which became effective December 15, 2008.

report several *million* ROEs and immediately encountered difficulties. Wedbush was unable to report these ROEs timely because its email systems were incapable of handling the amount of data generated. As a result, Wedbush was unable to transmit a single FORE file via email. Though the firm had determined well before July 2006 that it would begin reporting many more ROEs than it had heretofore reported, it did not perform any testing to determine whether its systems were equipped to report that number of orders.

12. Only after utilization of email proved untenable did the firm attempt to transmit via another medium, IFT (internet file transfer). When that also proved to be unworkable, the firm switched to FTP (file transfer protocol) transmission. Even then, however, the firm continued to have transmission issues, which contributed to late reporting that persisted from July 2006 through December 2012. Year after year, Wedbush's violation rate for late reporting was higher than that of its peers.

13. Based on the daily and monthly feedback provided by the OATS website, the firm knew, or should have known, how many ROEs it was submitting late, and it knew, or should have known, how its late reporting compared to that of its peers and the industry.

C. Wedbush Failed to Repair Rejected ROEs

14. During the relevant time period, as it does today, OATS rejected ROEs that failed to pass certain validation checks. If any validation failed, the ROE was rejected and an associated error message was assigned representing each validation that failed. The OATS Reporting Technical Specifications stated that all ROE rejections that required repair had to be researched, repaired, and resubmitted within five OATS business days. When ROEs were rejected and not repaired and resubmitted, they were not included in the audit trail created by OATS and were not included in certain surveillance patterns run by FINRA. Thus, failing to

repair rejections hampered FINRA's ability to do its job, much in the same way as a complete failure to report. In four reviews conducted for periods between July 1, 2006 and June 30, 2010, the firm failed to repair approximately 12.7 million rejected repairable ROEs.

15. Based on the daily feedback provided by the OATS website, the firm knew, or should have known, about the associated error messages and when ROEs were rejected. Yet it failed to repair a substantial number of the repairable rejected ROEs. When its reject repair problems first arose, Wedbush operated under the false assumption that rejected ROEs could not be repaired after the five OATS business day window. Wedbush, however, did not dedicate the resources necessary to make all required repairs during the five-day window, and then gave up once five OATS business days had elapsed. Even after the firm clarified its misunderstanding, and knew that repairs could be made beyond the five-day window, it still periodically made repairs months late or not at all. The firm's failure to routinely perform pre-submission checks of OATS data for accuracy further exacerbated its problems with transmitting ROEs that were rejected and required repair.

D. Wedbush Submitted Inaccurate, Incomplete, or Improperly Formatted Data

16. The accuracy of OATS data was, and still is, important to FINRA's ability to regulate and surveil. To create the life cycle of an order, FINRA linked OATS reported data to other market data. An alert was generated when the OATS and market data could not be linked because of inaccurate, incomplete, or improperly formatted data. According to the OATS Reporting Technical Specifications in effect:

- "Interfirm Route Matching violations" refer to Route or Combined Order/Route Reports that OATS was unable to link to a corresponding new, cancel/replace, combined order/execution or combined order/route report; these violations are divided into two categories: (1) "sending firm" represents instances where OATS was unable to match a Route or Combined Order/Route Report to a related New Order

Report submitted by a firm to which the order was routed; and (2) “receiving firm” represents instances where a firm was named in a Route or Combined Order/Route Report by another member as the Sent To Firm and OATS was unable to find a related New Order Report by the identified Sent To Firm; and

- “Nasdaq Route Matching violations” refer to Route or Combined Order/Route Reports that OATS was unable to link to the related order routed to Nasdaq due to inaccurate, incomplete, or improperly formatted data.

The ability to link OATS, exchange, and trade data allowed FINRA to create the complete life cycle of an order, and FINRA’s computerized surveillance relied on this linking to create a complete audit trail. If the OATS data did not properly link to exchange or trade data, then the order would not be included in certain computerized surveillance patterns, which could exclude violations from detection or, conversely, could create false positives that unnecessarily take up limited regulatory resources to investigate.

17. In four reviews conducted for periods between May 1, 2006 through August 31, 2009, the firm had approximately 14.2 million Interfirm Route Matching-Sending Firm violations, 4.1 million Interfirm Route Matching-Receiving Firm violations, and 26.7 million Nasdaq Route Matching violations.

E. Wedbush Continues To Have OATS Reporting Violations Subsequent To The Review Periods Covered In The Complaint

18. Subsequent to the review periods covered in the Complaint, the Department of Market Regulation conducted seven additional examinations for review periods between September 1, 2010 and December 31, 2012, in which it reviewed Wedbush’s OATS reporting. As found by the Department of Market Regulation, during these review periods, the firm had numerous OATS reporting violations for non-reporting, over-reporting, late reporting, failure to repair repairable rejected ROEs, failure to repair repairable rejected ROEs within the required five business days, and failure to populate the proper ROE reconciliation identifier on

resubmitted ROEs. For example, from May 1, 2012 through August 31, 2012, the firm submitted more than 607 million ROEs late, representing 4.48 percent of the firm's OATS submissions during that time period. Also, by way of illustration, from October 1, 2012 through December 31, 2012, the firm failed to repair and resubmit 58,796,310 ROEs, representing 81.54 percent of all rejected repairable ROEs during that time period.

OATS Supervision

19. Wedbush's written supervisory procedures required daily reviews of rejected ROEs, late reports, and matching deficiencies. They also required that corrective action—such as adding staff—be taken where appropriate. Supervisory reviews were to be documented in a daily supervisory log, along with the data that was reviewed. The written supervisory procedures also required a monthly review to ensure that all ROEs had been submitted, data fields were accurate, ROEs were submitted in the proper sequence, appropriate codes were used, and data was properly reported under the firm's MPID. Again, corrective action—including additional education and staffing—was to be taken where appropriate, and reviews were to be documented in a monthly supervisory log, along with the data that was reviewed.

20. Notwithstanding the requirements contained in its written supervisory procedures, the firm failed to consistently perform the required daily and monthly supervisory reviews. The “daily” supervisory log was nothing of the sort. It was an unintelligible, handwritten notebook used to take notes on significant issues that did not evidence any regular supervisory reviews. The firm often went weeks, or even months, without making any entries. There was no separate monthly supervisory log. While the firm designated an individual to be in charge of OATS reporting and compliance shortly before July 2006, he was a junior-level employee who had no prior OATS-related experience and spent only a fraction of his day on OATS-related activity.

Moreover, no one was supervising this junior-level employee to ensure that the required reviews were being conducted and that the required logs were being kept.

21. The firm was aware that its de-centralized system of OATS reporting—whereby Wedbush was dependent on its various SA/DMA clients to provide timely and accurate OATS data with little or no pre-screening before transmission to FINRA—introduced dozens of contingencies that could lead to reporting problems. The firm also knew that it continued to have OATS reporting difficulties from July 2006 through at least December 2012. Nonetheless, Wedbush’s supervisory system consisted primarily of addressing problems on an ad hoc basis, without addressing the underlying issues that created the problems in the first instance.

Registration

22. As alleged above, the OATS reporting at issue primarily emanated from the firm’s Correspondent Services division. In March of 2007, Wedbush appointed ABC as Vice President of Correspondent Services. In that position, in which he remained throughout the relevant time period, ABC was in charge of Correspondent Services. He was responsible for the SA/DMA client activity at issue, supervised registered persons, and otherwise engaged in the securities business and participated in the management of the firm. Additionally, upon the departure of a registered principal in February 2008, ABC assumed supervisory responsibility for the personnel responsible for OATS reporting.

23. Given these responsibilities, ABC should have been registered as a General Securities Representative and as a General Securities Principal as of March of 2007. But ABC did not become registered as a General Securities Representative until September 2009, and he did not become registered as a General Securities Principal until February 2010.

**OATS Reporting
NASD Rule 6955/FINRA Rule 7450
and NASD Rule 2110/FINRA Rule 2010**

24. During the period January 1, 2005 through December 31, 2012, Wedbush received, originated, or transmitted orders in Nasdaq and OTC listed equity securities via an electronic order-routing or execution system. NASD Rule 6950 and FINRA Rule 7450 required that all applicable order information required to be recorded under NASD Rule 6954 and FINRA Rule 7440 be transmitted to OATS in a manner prescribed by FINRA.

25. From January 1, 2005 through July 7, 2006, Wedbush failed to report approximately 1.6 billion ROEs. These 1.6 billion ROEs represented approximately 99.92 percent of all ROEs that the firm was required to transmit to OATS during this time period.

26. From July 1 to September 30, 2006, the firm transmitted to OATS 9,990,797 ROEs that were rejected by OATS for context or syntax errors and were repairable. The firm failed to repair 8,647,773 of the rejected ROEs during this time period, which represented approximately 86.56 percent of all rejected repairable ROEs. As a result of the firm's failure to repair these ROEs, the firm failed to transmit 8,647,773 ROEs to OATS during this time period.

27. From April 1 to July 31, 2006, the firm failed to timely report to OATS 11,291,417 ROEs. These late ROEs represented approximately 9.64 percent of all ROEs (117,098,438) that the firm transmitted to OATS during this time period. In addition, the firm transmitted to OATS 8,695,023 Route or Combined Order/Route reports that the OATS system was unable to link to the related order routed to Nasdaq due to inaccurate, incomplete or improperly formatted data. These unmatched Route or Combined Order/Route Reports represented approximately 98.94 percent of all match-eligible Route or Combined Order/Route Reports (8,787,849) that the firm transmitted to OATS during this time period. In addition, the

firm transmitted to OATS 14,177,529 Route or Combined Order/Route Reports that the OATS system was unable to link to the corresponding new order transmitted by the destination member firm due to inaccurate, incomplete or improperly formatted data. These 14,177,529 Route or Combined Order/Route Reports represented approximately 34.72 percent of all match-eligible Route or Combined Order/Route Reports (40,828,872) that the firm transmitted to OATS during this time period.

28. From April 1 to June 30, 2007, the firm submitted to OATS 17,890 ROEs that were rejected by OATS for context or syntax errors and were repairable. The firm failed to repair 10,388 of the rejected ROEs during this time period, which represented approximately 58.07 percent of all rejected repairable ROEs. As a result of the firm's failure to repair these ROEs, the firm failed to transmit 10,388 ROEs to OATS during this time period.

29. From May 1 to August 31, 2007, the firm transmitted to OATS 4,138,657 Route or Combined Order/Route Reports that were submitted to OATS by other members where the firm was named as the Sent To Firm that the OATS system was unable to match to a related New Order Report submitted by the firm due to inaccurate, incomplete, or improperly formatted data. These 4,138,657 Route or Combined Order/Route Reports represented 17.43 percent of all match-eligible Route or Combined Order/Route Reports (23,742,187) that the firm transmitted to OATS during this time period.

30. From May 1 to August 31, 2008, the firm failed to timely report to OATS 75,027,169 ROEs. These late ROEs represented approximately 8.90 percent of all ROEs (843,281,914) that the firm transmitted to OATS during this time period. In addition, the firm transmitted to OATS 2,422,468 Route or Combined Order/Route Reports that the OATS system was unable to link to the related order routed to Nasdaq due to inaccurate, incomplete or

improperly formatted data. These unmatched Route or Combined Order/Route Reports represented 1.17 percent of all match-eligible Route or Combined Order/Route Reports (206,529,511) that the firm transmitted to OATS during this time period.

31. From October 1 to December 31, 2008, the firm transmitted to OATS 5,422,091 ROEs that were rejected by OATS for context or syntax errors and were repairable. The firm failed to repair 3,854,346 of the rejected ROEs, which represented approximately 71.09 percent of all repairable rejected ROEs. As a result of the firm's failure to repair these ROEs, the firm failed to transmit 3,854,346 ROEs to OATS during this time period.

32. From October 1 to December 31, 2008, the firm failed to transmit 2,273,120 ROEs to OATS on 24 business days. These 2,273,120 ROEs represented 6.87 percent of all ROEs (33,108,018) that the firm was required to transmit to OATS during this time period for the specific MPIDs under review (WEDI, WEDD, WEDR, WEDX, GNSM, WEDG, WEDQ, WEDV, WMSB, WMSL, and WMSQ).

33. From May 1 to August 31, 2009, the firm failed to timely report to OATS 71,761,796 ROEs. These late ROEs represented 3.86 percent of all ROEs (1,858,835,691) that the firm transmitted to OATS during this time period. In addition, the firm transmitted to OATS 15,631,016 Route or Combined Order/Route Reports that the OATS system was unable to link to the related order routed to Nasdaq due to inaccurate, incomplete or improperly formatted data. These unmatched Route or Combined Order/Route Reports represented 3.23 percent of all match-eligible Route or Combined Order/Route Reports (483,582,333) that the firm transmitted to OATS during this time period.

34. From January 1 to August 31, 2009, the firm failed to transmit 619,424 ROEs on 10 business days. These 619,424 ROEs represented 1.13 percent of all ROEs (54,851,608) that

the firm was required to transmit to OATS during this time period for the specific MPIDs under review (WEDE, WMSL, WEDK, WMSN, and WEDX).

35. From October 8, 2009 to August 31, 2010, the firm failed to transmit 26,189 ROEs on 186 business days. These 26,189 ROEs represented 62.06 percent of all ROEs (42,197) that the firm was required to transmit to OATS during this time period for the specific MPIDs under review (WMBQ and WISG).

36. From April 1 through June 30, 2010, the firm transmitted to OATS 2,373,407 ROEs that were rejected by OATS for context or syntax errors and were repairable. The firm failed to repair 197,776 of these rejected ROEs during the time period, which represented 8.33 percent of all rejected repairable ROEs. As a result of the firm's failure to repair these ROEs, the firm failed to transmit 197,776 ROEs to OATS during this time period.

37. From May 1 to August 31, 2010, the firm failed to timely report to OATS 111,074,896 ROEs. These late ROEs represented 3.68 percent of all ROEs (3,022,284,145) that the firm transmitted to OATS during this time period.

38. From September 1, 2010 through December 31, 2012, in seven additional reviews, the firm had numerous OATS reporting violations for non-reporting, over-reporting, late reporting, failure to repair repairable rejected ROEs, failure to repair repairable rejected ROEs within the required five business days, and failure to populate the proper ROE reconciliation identifier on resubmitted ROEs. For example, from May 1, 2012 through August 31, 2012, the firm submitted more than 607 million ROEs late, representing 4.48 percent of the firm's OATS submissions during that time period. Also, by way of illustration, from October 1, 2012 through December 31, 2012, the firm failed to repair and resubmit 58,796,310 ROEs, representing 81.54 percent of all rejected repairable ROEs during that time period.

39. As a result of the foregoing conduct, Wedbush violated NASD Rule 6955 and FINRA Rule 7450, and, in the conduct of its business, failed to observe high standards of commercial honor and just and equitable principles of trade, in violation of NASD Rule 2110 and FINRA Rule 2010.

**Inadequate Supervision
NASD Rules 2110 and 3010 and FINRA Rule 2010**

40. At all relevant times, Wedbush engaged in a course of business and activities that required that it report billions of ROEs to OATS accurately and timely.

41. NASD Conduct Rule 3010(a) required each member to establish, maintain, and enforce a system to supervise the activities of each registered representative, registered principal, and associated person that was reasonably designed to achieve compliance with the securities laws, regulations, and FINRA rules. Likewise, at all relevant times, NASD Conduct Rule 3010(b) required that each member establish, maintain, and enforce written procedures to supervise the types of business in which it engaged and to supervise the activities of registered representatives, registered principals, and associated persons that were reasonably designed to achieve compliance with applicable securities laws, regulations, and FINRA rules.

42. Wedbush failed to establish and maintain a system to supervise the activities of the firm's registered representatives, registered principals, and other associated persons that was reasonably designed to achieve compliance with applicable securities laws and regulations and the rules of NASD and FINRA, to wit, NASD Rule 6955 and FINRA Rule 7450.

43. In addition, Wedbush failed to reasonably and properly supervise the activities of the firm's registered representatives, registered principals, and other associated persons so as to achieve compliance with NASD Rule 7450 and FINRA Rule 6955.

44. Furthermore, Wedbush failed to establish, maintain, and enforce written procedures to supervise the types of business in which it was engaged and to supervise the activities of registered representatives, registered principals, and other associated persons that were reasonably designed to achieve compliance with applicable securities laws and regulations and the rules of NASD and FINRA, to wit, NASD Rule 6955 and FINRA Rule 7450.

45. As a result of the foregoing conduct, Wedbush violated NASD Rule 3010, and, in the conduct of its business, failed to observe high standards of commercial honor and just and equitable principles of trade, in violation of NASD Rule 2110 and FINRA Rule 2010.

**Failure to Register
NASD Rules 1021, 1031, and 2110 and FINRA Rule 2010**

46. At all relevant times, NASD Rule 1021 stated that all persons engaged or to be engaged in the investment banking or securities business of a member who are to function as principals shall be registered as such with FINRA in the category of registration appropriate to the function to be performed as specified in NASD Rule 1022. Contrary to this requirement, during the time period March 2007 through February 22, 2010, Wedbush failed to register ABC, the Vice President of Correspondent Services, as a General Securities Principal.

47. At all relevant times, NASD Rule 1031 stated that all persons engaged or to be engaged in the investment banking or securities business of a member who are to function as representatives shall be registered as such with FINRA in the category of registration appropriate to the function to be performed as specified in Rule 1032. Contrary to this requirement, during the time period March 2007 through September 2, 2009, Wedbush failed to register ABC as a General Securities Representative.

48. As a result of the foregoing conduct, Wedbush violated NASD Rules 1021 and 1031, and, in the conduct of its business, failed to observe high standards of commercial honor and just and equitable principles of trade, in violation of NASD Rule 2110 and FINRA Rule 2010.

Based on the foregoing, Respondent violated NASD Rules 1021, 1031, 2110, 3010 and 6955 and FINRA Rules 7450 and 2010.

Based on these considerations, the sanctions hereby imposed by the acceptance of the Offer are in the public interest, are sufficiently remedial to deter Respondent from any future misconduct, and represent a proper discharge by FINRA, of its regulatory responsibility under the Securities Exchange Act of 1934.

SANCTIONS

It is ordered that Respondent be sanctioned as follows:

1. A censure;
2. A fine in the amount of \$750,000 (\$500,000 for OATS reporting, \$225,000 for supervision, and \$25,000 for registration); and
3. Wedbush shall further undertake to:
 - a. Retain, within 30 days of the date of the Order Accepting Offer of Settlement, an Independent Consultant, acceptable to FINRA staff, to conduct a comprehensive review of the adequacy of Wedbush's policies, systems, controls, procedures (written and otherwise), and training relating to OATS reporting and the firm's supervision of OATS reporting;
 - b. Exclusively bear all costs, including compensation and expenses, associated with the retention of the Independent Consultant;
 - c. Cooperate with the Independent Consultant in all respects, including by providing staff support. Wedbush shall place no restrictions on the Independent Consultant's communications with FINRA staff and, upon request, shall make available to FINRA staff any and all communications between the Independent Consultant and the firm, and documents reviewed by the Independent Consultant in connection with his or her engagement. Once

retained, Wedbush shall not terminate the relationship with the Independent Consultant without FINRA staff's written approval; Wedbush shall not be in and shall not have an attorney-client relationship with the Independent Consultant and shall not seek to invoke the attorney-client privilege or other doctrine or privilege to prevent, restrict, or delay the Independent Consultant from transmitting any information, reports or documents to FINRA;

- d. At the conclusion of the review, which shall be no more than 120 days after the date of the Order Accepting Offer of Settlement, require the Independent Consultant to submit to the firm and FINRA staff an Initial Report. The Initial Report shall address, at a minimum, (i) the adequacy of the firm's policies, systems, controls, procedures, and training relating to OATS reporting and the firm's supervision of OATS reporting, (ii) a description of the review performed and the conclusions reached, and (iii) the Independent Consultant's recommendations for modifications and additions to the firm's policies, systems, controls, procedures, and training relating to OATS reporting and the firm's supervision of OATS reporting;
- e. Require the Independent Consultant to enter into a written agreement that provides that for the period of engagement and for a period of two years from completion of the engagement, the Independent Consultant shall not enter into any other employment, consultant, attorney-client, auditing or other professional relationship with Wedbush, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such. Any firm with which the Independent Consultant is affiliated in performing his or her duties pursuant to this Offer shall not, without prior written consent of FINRA staff, enter into any employment, consultant, attorney-client, auditing or other professional relationship with Wedbush or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement;
- f. Within 60 days after delivery of the Initial Report, Wedbush shall adopt and implement the recommendations of the Independent Consultant or, if it determines that a recommendation is unduly burdensome or impractical, propose an alternative procedure to the Independent Consultant designed to achieve the same objective. The firm shall submit such proposed alternatives in writing simultaneously to the Independent Consultant and FINRA staff. Within 30 days of receipt of any proposed alternative procedure, the Independent Consultant shall: (i) reasonably evaluate the alternative procedure and determine whether it will achieve the same objective as the Independent Consultant's original recommendation; and (ii) provide the firm and FINRA staff with a written decision reflecting his or her determination. The firm will abide by the Independent Consultant's ultimate determination with respect to any proposed alternative procedure and must adopt and implement all recommendations deemed appropriate by the Independent Consultant;

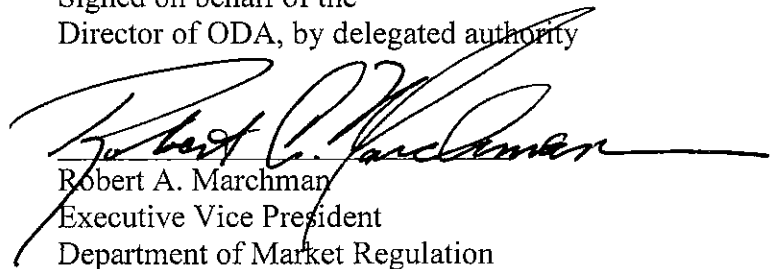
- g. Within 30 days after the issuance of the later of the Independent Consultant's Initial Report or written determination regarding alternative procedures (if any), Wedbush shall provide FINRA staff with a written implementation report, certified by an officer of Wedbush, attesting to, containing documentation of, and setting forth the details of the firm's implementation of the Independent Consultant's recommendations;
- h. Wedbush shall further retain the Independent Consultant to conduct a follow up review and submit a written Final Report to the firm and to FINRA staff no later than one year from the date of the Order Accepting Offer of Settlement. In the Final Report, the Independent Consultant shall address Wedbush's implementation of the systems, policies, controls, procedures, and training and make any further recommendation he or she deems necessary. Within 30 days of receipt of the Independent Consultant's Final Report, Wedbush shall adopt and implement recommendations contained in the Final Report.
- i. Upon written request showing good cause, FINRA staff may extend any of the procedural dates set forth above.

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

SO ORDERED.

FINRA

Signed on behalf of the
Director of ODA, by delegated authority



Robert A. Marchman
Executive Vice President
Department of Market Regulation