

**FINANCIAL INDUSTRY REGULATORY AUTHORITY**

**OFFICE OF HEARING OFFICERS**

DEPARTMENT OF ENFORCEMENT,

Complainant,

v.

WEDBUSH SECURITIES, INC.  
(CRD No. 877),

RICHARD A. LANNI  
(CRD No. 302249), and

RONALD E. VOGEL  
(CRD No. 455321),

Respondents.

Disciplinary Proceeding  
No. 2008012738002

Hearing Officer - MAD

**ORDER ACCEPTING OFFER OF  
SETTLEMENT**

Date: September 10, 2012

**INTRODUCTION**

Disciplinary Proceeding No. 2008012738002 was filed on February 2, 2011, by the Department of Enforcement of the Financial Industry Regulatory Authority (FINRA) (Complainant). Respondents Wedbush Securities, Inc., Richard A. Lanni and Ronald E. Vogel (Respondents) submitted an Offer of Settlement (Offer) to Complainant dated August 31, 2012. Pursuant to FINRA Rule 9270(e), the Complainant and the National Adjudicatory Council (NAC), a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs (ODA) 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 NAC.

Under the terms of the Offer, Respondents have consented, without admitting or denying the allegations of the Complaint, 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, and to the imposition of the sanctions set forth below, and fully understands that this Order will become part of Respondents' permanent disciplinary record and may be considered in any future actions brought by FINRA.

### **RESPONDENTS AND JURISDICTION**

Wedbush Securities, Inc., formerly known as Wedbush Morgan Securities Corp. (WSI), has been a member of FINRA since 1955. The firm has its principal place of business in Los Angeles, California. WSI has the following relevant disciplinary history within the past five years:

- On March 17, 2008, after a hearing before the full board of the NYSE, the Firm was found subject to findings that it submitted inaccurate trading information in response to blue sheet request 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 342. Sanctions: Censure, fine of \$200,000.00, and requirement to retain consultant to review and report regarding compliance resources. (NYSE HBD-06-196).
- On September 24, 2008, the Firm entered in a Letter of Authorization, Waiver and Consent with FINRA, in which, without admitting or denying, it consented to findings that it engaged in inaccurate trade reporting, inaccurate and incomplete

order tickets, failed to prepare a proper trading ledger, and failed 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 605 of Regulation NMS and NASD Rules 2110, 3010, 3110, and 6955.

Sanctions: Censure and a fine of \$22,500.00. (FINRA 20060052881-01).

- On January 6, 2009, after a hearing before an NYSE hearing board, the Firm was 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 NYSE consent for a branch office; due diligence in opening customer accounts; review and retention of email correspondence; 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. Sanctions: Censure, a fine of \$100,000.00, and an undertaking to hire a consultant.
- On June 29, 2010, the Firm entered in a Letter of Authorization, Waiver and Consent with NASDAQ, in which, without admitting or denying, it consented to findings that it failed to establish and maintain a supervisory system and adequate written supervisory procedures to achieve compliance with applicable securities laws and regulations (including NASD Notice to Members 04-66) and NASDAQ rules concerning the prevention of erroneous orders and transactions and frivolous clearly erroneous transaction complaints, in violation of NASDAQ Rules 2110

and 3010. Sanctions: Censure, fine of \$10,000, and undertaking to revise written supervisory procedures. (NASDAQ 20080152870-01).

- On May 21, 2012, the Firm entered in a Letter of Authorization, Waiver and Consent with the BZX Exchange, in which, without admitting or denying, it consented to findings that it traded after-market hours in its proprietary account and failed 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 violation of BZA Exchange Rules Chapter XV, Rule 5.1 and Chapter XXIII, Rule 23.1(J).  
Sanctions: Censure, a fine of \$75,000, restitution of \$73,326, plus interest, and an undertaking to revise its supervisory system regarding its obligations when exercising options contracts.
- On August 2, 2012, after a hearing before a FINRA disciplinary panel, the Firm was found subject to findings that the firm failed to comply with reporting requirements and failed to file regulatory reports in a timely manner, and that it failed to establish and maintain a supervisory system and adequate written supervisory procedures to achieve compliance with applicable securities laws and regulations, in violation of FINRA Bylaws Article V, Section 2(c) and Section 3(b); FINRA Rule 2010; NYSE Rules 351(a) and 351(d); NASD Bylaws Article V, Section 2(c) and Section 3(b); and NASD Rules 2110, 3010, and 3070(c).  
Sanctions: \$300,000.00 fine. (FINRA 20070094044-01)(Appealed August 3, 2012).

Dennis R. Dieb first became registered in 1970. From August 1, 1977 to November 9, 2011, Dieb was associated with WSI as a General Securities Representative, General Securities Principal, and as a Registered Options Principal. From about November 2004 to October 2007, Dieb acted as branch manager of WSI's Newport Beach, California branch office and was responsible for the supervision of the Salehs. On September 6, 2012, the complaint and its charges against Dieb, deceased, were withdrawn.

Richard A. Lanni first became registered in 1970. Since November 1, 1976, Lanni has been associated with WSI as a General Securities Representative, General Securities Principal, Registered Options Principal, and as a General Securities Sales Supervisor. From about November 2004 to October 2007, Lanni acted as Senior Vice President and Division Manager of WSI and was responsible for the supervision of WSI's Newport Beach branch office, among others, and Dieb. During this period, Lanni, as Division Manager, had primary responsibility for establishing and maintaining WSI's supervisory system and establishing, maintaining and enforcing its WSPs with respect to insurance products, including variable annuities. From about October 2007 to the dates of Debbie Saleh's and Betty Saleh's terminations, respectively, Lanni acted as branch manager of the Newport Beach branch office, and was responsible for the supervision of the Salehs. Lanni has no relevant disciplinary history within the past five years.

Ronald E. Vogel first became registered in 1967. Since June 15, 1977, Vogel has been associated with WSI as a General Securities Representative, General Securities Principal, and as a Registered Options Principal. From about August 2005 to the dates of Debbie Saleh's and Betty Saleh's terminations, respectively, Vogel acted as assistant branch manager of the WSI Newport Beach office and assisted Dieb, and subsequently Lanni, in supervising the Salehs. Vogel has no relevant disciplinary history.

## **FINDINGS AND CONCLUSIONS**

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

### **BACKGROUND**

From about October 29, 2004 through March 11, 2009, Debbie Saleh was associated with WSI as a registered representative. From about October 29, 2004 through June 25, 2009, Betty Saleh was associated with WSI as a registered representative.

Although, for the most part, the Salehs maintained separate clientele, they worked closely together and often had contact with each others' customers. They brought KM, their longtime sales assistant, with them to WSI. Although they never worked in Newport Beach or Orange County, California, WSI assigned the Salehs to WSI's Newport Beach branch office, where they were supervised by and reported to the Newport Beach branch office manager. From about November 2004 to June 2005, the Salehs and their sales assistant were officed together in the WSI headquarters office in downtown Los Angeles.

In July 2005, WSI established for the Salehs a non-OSJ office in Woodland Hills. The Woodland Hills office allowed the Salehs a substantial amount of privacy in conducting their business. For example, the Salehs' individual offices shared a common wall in which a pass-through window was installed. Despite the volume of the Salehs' annuity business, the Woodland Hills office lacked any onsite supervisory or compliance staff, such as a registered principal or an independent operations clerk or manager. Instead, WSI relocated JR, a registered representative and Debbie Saleh's husband, from his home office and designated him as the "broker-in-charge," which meant that he generally oversaw the Woodland Hills office but had no principal supervisory responsibility over the Salehs or KM. WSI assigned to KM all support duties for the Woodland Hills office, including processing all correspondence,

maintaining client files, and cashiering, even though she was not registered. Beginning about six months after the Woodland Hills opened, principal supervisors traveled about 70 miles from Newport Beach to Woodland Hills once per month or so to meet with the Woodland Hills staff and conduct office reviews. Separately, WSI's Business Conduct Department visited the Woodland Hills office annually. These supervisory visits were inadequate in scope and nature to reasonably achieve the Salehs' and WSI's compliance with applicable laws and regulations.

While registered with WSI, the Salehs engaged in variable annuity business that included but was not limited to the following conduct:

- a. Sold approximately 162 annuities to approximately 47 of the Salehs' approximately 63 customers, for approximately \$9.8 million in face value, generating over \$700,000 in commissions, and resulting in approximately \$29 million in annuity holdings in Saleh customer accounts;
- b. Sold multiple annuities to approximately 41 of 47, i.e., about 87%, of the Salehs' customers who owned annuities;
- c. Sold additional annuities after taking withdrawals to approximately 40 of 47, i.e., approximately 83% of the Salehs' customers;
- d. Caused approximately 31 of 47 customers, i.e., approximately 66%, to withdraw \$2.1 million, or approximately 21% of their initial investment, within the first three years, which caused the customers to pay at least \$73,000.00 in contingent deferred sales charges or surrender fees;

- e. Engaged in approximately 60 variable annuity transactions, i.e., approximately one-third of the Salehs' variable annuity transactions, in qualified retirement accounts, such as individual retirement accounts; and
- f. Funded at least \$3 million, i.e., nearly one-third, of the Saleh customers' variable annuity purchases from partial withdrawals.

**UNDERLYING VIOLATIONS COMMITTED BY THE**  
**SALEHS**

On April 30, 2009, Complainant filed a nine-count complaint against Debbie Saleh, alleging, among other things, that while registered with WSI, she recommended and caused certain of her customers to engage in unsuitable partial and full surrenders and subsequent purchases of either new variable annuities, or other pooled investments with similar objectives, with no material benefit to the customers; made material misrepresentations and omissions in connection with the foregoing transactions; effected transactions without customer authorization or with unapproved discretion; engaged in forgery and falsification of WSI and insurance documents; impersonated a customer on telephone calls with an insurance company; and, made false statements under oath to FINRA staff, relating to transactions in the following accounts:

- a. Customers LG (born [REDACTED] and JG [REDACTED])
  - i. partial withdrawals from approximately seven variable annuities, with immediate reinvestments into two variable annuities and one indexed annuity;

- ii. approximately 12 quarterly partial withdrawals that were represented falsely as “interest;”
  - iii. all transactions were unauthorized and effected with documents that reflect false customer statements regarding suitability and disclosures, customer forgeries, false addresses, false signature guarantees or medallion stamps, and/or false birth dates;
  - iv. nearly 100% concentration of the customers’ net worth in annuities; and
  - v. falsified IRS Form 1099s regarding the annuity withdrawals;
- b. Customer LA (born [REDACTED])
  - i. investment of two pension distributions, approximately \$245,000.00 and \$292,000.00, into two variable annuities in a retirement rollover account already holding variable annuities valued at approximately \$230,000.00, resulting in 100% concentration of retirement funds in variable annuities; and
  - ii. transaction documents that reflect false customer statements regarding suitability and disclosures, customer forgeries, false addresses and/or false signature guarantees or medallion stamps;
- c. separately, in the accounts owned or controlled by Customer RC (born [REDACTED]) Debbie Saleh engaged in similar misconduct:
  - i. partial withdrawals made from about 30 annuities;
  - ii. about seven immediate reinvestments in variable annuities;

- iii. one immediate reinvestment in a closed-end fund;
- iv. recommended, facilitated, and received compensation in connection with a first mortgage of over \$300,000.00 that RC took out on his primary residence, which he had owned free and clear; and
- v. caused RC to invest the majority of the mortgage proceeds into two variable annuities.

On September 30, 2010, Complainant filed an eight-count complaint against Betty Saleh, alleging, among other things, that while registered with WSI, she recommended and caused certain of her customers to engage in unsuitable partial and full surrenders and purchases of either new variable annuities, or other pooled investments with similar objectives; made material misrepresentations and omissions in connection with the foregoing transactions; effected transactions without customer authorization or with unapproved discretion; engaged in forgery and falsification of WSI and insurance documents; and destroyed documents, in the following accounts:

- a. Customer BN [REDACTED]
  - i. partial or full surrenders from approximately ten annuities;
  - ii. one immediate reinvestment in a new variable annuity from a different issuer;
  - iii. nine immediate reinvestments in over 50 issues of closed-end funds (CEFs), unit investment trusts (UITs) or mutual funds;

- iv. one full liquidation of six transferred-in mutual funds, valued at around \$300,000, and immediate reinvestment in a variable annuity with similar investment objectives;
  - v. up to 14 variable annuities held in qualified accounts; and vi. at least seven transactions with documents that reflect false customer statements regarding suitability and disclosures, customer forgeries, and false signature guarantees or medallion stamps.
- b. Customer DH (born [REDACTED])
  - i. partial or full surrenders from approximately 17 annuities;
  - ii. seven immediate reinvestments in new annuities from different issuers;
  - iii. approximately 45 immediate reinvestments in over 50 issues of CEFs, UITs or mutual funds;
  - iv. at least nine variable annuities held in qualified accounts; and v. at least eight transactions with documents that reflect falsified customer statements regarding suitability and disclosures, forgeries, and falsifications of signature guarantees and medallion stamps.
- c. Customer SH (born [REDACTED]) with respect to a defined contribution pension plan account:
  - i. one unauthorized purchase of a variable annuity in the amount of \$175,000, in a qualified pension account;

- ii. an unauthorized full surrender three years later, causing a surrender penalty of over \$12,000; and
- iii. immediate reinvestment into four CEFs and UITs with similar investment objectives.

The transactions included “one size fits all” recommendations to the majority of the customers, most of whom were near or in retirement, to purchase variable annuities that were unsuitable in light of the customers’ individual objectives and risk tolerance, their need for current income, or liquidity. The Salehs recommended that their customers purchase variable annuities even though their customers were not sophisticated investors. Instead, most of their customers relied entirely on the Salehs’ investment recommendations and did not have the ability to understand the complexity or costs of variable products or to choose and monitor the investment in the separate accounts. Many of the customers did not need or understand the life insurance benefits or its tax consequences. Because of their age, some of the customers were not eligible for the variable annuity policies or certain riders that Debbie Saleh sold them to enhance her commissions, and did not know that Debbie Saleh falsified the customers’ birth dates on annuity applications.

The Salehs’ sales of variable annuities to these customers further resulted in undue concentration of variable annuities in the customers’ investment portfolios, some up to nearly 100 percent of the customers’ liquid net worth. The Salehs’ indiscriminate sales also resulted in substantial annuity positions in retirement accounts that were qualified for tax deferral, providing no additional tax benefit from the annuities’ added cost of insurance.

The Salehs each also recommended and caused unsuitable switch transactions by taking partial withdrawals and full surrenders from annuities previously sold to the customers and

purchasing new annuities with the proceeds. In most instances, these withdrawals or surrenders and the subsequent purchases were unauthorized and undisclosed to the customer. In those instances, the Salehs failed to inform WSI that the reinvestments were made with annuity proceeds.

When the Salehs disclosed the switch transactions to their customers, they gave unfounded, false or misleading justifications for the switches or replacements. They misrepresented and failed to inform customers of the attendant risks, costs and other material aspects of the annuity transactions. For example, the Salehs often told their customers that the funds in the variable annuities were guaranteed against losses in the equity markets, and failed to disclose that any such guarantees function only as a death benefit, or that substantial penalties applied to withdrawals and to funds invested in new annuities.

Over time, and as scrutiny of their variable annuity business increased, the Salehs began using the variable annuity withdrawals and surrenders as a source of funds to switch investors into a similar pooled product with above-average production credit, such as equity-indexed annuities or offerings of CEFs, UITs, reverse convertible securities, usually on an initial public offering, and an occasional mutual fund. The Salehs engaged in the later switches into similar products primarily to generate additional production credits on funds invested for the long term, without a reasonable belief that the partial withdrawal or full surrender of the variable annuity was in the customers' best interest or met the customers' investment objectives and needs. They often persuaded customers to accept their recommendations to switch into other pooled products by telling customers, among other things, that there would be no cost or commission on the transaction where the Salehs earned concession credits on the offerings.

Without admitting or denying the allegations, Debbie Saleh submitted an Offer of Settlement consenting to the entry of findings that she engaged in the alleged conduct and thereby violated Section 10(b) of the Exchange Act, Rule 10b-5 promulgated thereunder, and NASD Conduct Rules 2110, 2120, 2310 and IM-2310-2, 2510(b), and 8210. The Offer of Settlement and Order entered thereon on August 5, 2009, provide for a bar from association with any FINRA firm in all capacities.

Without admitting or denying the allegations, Betty Saleh submitted an Offer of Settlement consenting to the entry of findings that she engaged in the alleged conduct and thereby violated Section 10(b) of the Exchange Act, Rule 10b-5 promulgated thereunder, NASD Conduct Rules 2110, 2120, 2310, 2510(b), and 3110, and FINRA Rules 2010 and 2020. The Offer of Settlement and Order entered thereon on December 15, 2010, provide for a bar from association with any FINRA firm in all capacities.

### **FIRST CAUSE OF ACTION**

#### **(Failure to Establish and Maintain an Adequate Supervisory System) (Violation of NASD Conduct Rules 3010(a) and 2110 By WSI and Lanni, and FINRA Rule 2010 by WSI)**

From about November 2004 through June 2009, WSI, acting through its responsible principals, failed to establish and maintain a supervisory system reasonably designed to achieve WSI's compliance with applicable laws, rules and regulations with respect to the variable annuity business transacted by WSI and the Salehs. From about November 2004 through October 2007, Lanni, as Division Manager, was the WSI principal who primarily was responsible for establishing and maintaining WSI's supervisory system and establishing, maintaining and enforcing its WSPs with respect to insurance products, including variable annuities.

During the period of the Salehs' registration with WSI, the firm, acting in part through Lanni from about November 2004 through October 2007, failed to establish and maintain a supervisory system reasonably designed to achieve compliance with applicable laws and regulations concerning variable annuities. In particular, the firm, and acting in part through Lanni, failed to:

- a. Establish a system and procedures reasonably designed to record an itemized daily record , i.e., a blotter, of any and all transactions in variable annuities, including sales, withdrawals, surrenders, exchanges and replacements;
- b. Establish a system and procedures reasonably designed to assure that WSI's principals and the Salehs' designated supervisors enforced WSI's WSPs concerning variable annuities;
- c. Establish a system and procedures, for example, through exception reports or otherwise, that were reasonably designed to monitor the sales activities of its registered representatives in variable annuities and to detect and report conduct warranting further review;
- d. Establish a system and procedures to obtain, review, and act upon reports received from and services available from insurance company issuers of variable products that would assist in the supervision of variable annuities, in particular with respect to partial withdrawals, full surrenders, and replacements or exchanges;

- e. Establish a system and procedures to determine and verify the source of funds for purchases of variable annuities, and thus to detect and prevent unsuitable sales of new annuities with the proceeds from existing annuities or home equity;
- f. Establish a system and procedures that reasonably required pre-approval by a supervisor or a centralized second-tier review unit of variable annuity transactions by older investors or investors with limited financial means;
- g. Incorporate into WSI's supervisory system and procedures a provision that addressed the establishment and supervision of an office that conducted significant variable annuity business without a registered principal onsite and that was located at a substantial distance from both the firm's home office and the supervisory branch office and management; and
- h. Establish a system to ensure heightened review when certain parameters were present, including, e.g., when the customer was over a specified age, when the transaction resulted in a customer's assets being overly concentrated in annuities, when the transaction would take place in a tax-qualified account, and when the transaction was a switch where the previous product had been held less than a specified time period.

During the period of the Salehs' registration with WSI, the firm failed to establish and maintain a supervisory system reasonably designed to achieve compliance with applicable laws and regulations concerning general sales practices. In particular, the firm failed to:

- a. Establish a system and procedures reasonably designed to investigate fully a prospective registrant's prior industry history, including customer complaints and arbitrations, involuntary terminations, prior firm internal reviews, and regulatory inquiries, in accord with defined standards, practices, and documentation thereof;
- b. Establish a system and procedures reasonably designed to ensure the accuracy of new account information and documents, including customer addresses, phone numbers, signatures, and investment objectives;
- c. Establish a system and procedures reasonably designed to detect and verify changes to customer addresses and investment objectives;
- d. Establish a system and procedures reasonably designed to detect the use by registered persons in customer accounts of their personal residence addresses or any other address under the registered person's control;
- e. Establish a system and procedures reasonably designed to maintain and review reasonably all correspondence, including email and fax transmissions, and to verify same; and
- f. Establish a system and procedures reasonably designed to review, verify, and guarantee customer signatures on transaction documents.

The failure of WSI to establish and maintain a supervisory system reasonably designed to achieve compliance with laws, rules and regulations that pertain to the firm's and the Salehs' business in variable annuities and other areas of general sales practices constitutes separate and distinct violations of NASD Conduct Rules 3010(a) and 2110 by WSI and Lanni, with respect to

conduct that occurred before December 15, 2008; and NASD Conduct Rule 3010(a) and FINRA Rule 2010 by WSI, with respect to conduct that occurred on or after December 15, 2008.

## **SECOND CAUSE OF ACTION**

### **(Failure to Establish, Maintain and Enforce Written Supervisory Procedures) (Violation of NASD Conduct Rules 3010(b) and 2110 by WSI and Lanni and FINRA Rule 2010 By WSI)**

From about November 2004 through October 2007, Lanni, as Division Manager, was the WSI principal who primarily was responsible for establishing and maintaining WSI's supervisory system and establishing, maintaining and enforcing its WSPs with respect to insurance products, including variable annuities.

From before November 2004 to the present, WSI has had in effect Corporate Policies that reflect certain written supervisory and compliance standards and procedures for the sale and review of variable annuities that are vague and insufficient, as set forth below. For example, Section F.24 of the Corporate Policies states that “[p]urchases of \$50,000 and above and/or 15% of an individual total assets must be pre-approved by the Sales Office Manager,” and that the “[c]lient must have a long-term investment objective.” This Section, however, provides no other reference to suitability and does not identify factors, such as the source of funds or need for liquidity or insurance, or the relevant weight a registered representative or supervising principal should apply to such factors in recommending or approving a variable annuity transaction, respectively. In 2007, WSI began adopting more extensive WSPs for variable annuities, although WSI did not increase or upgrade its monitoring or supervision practices. Both the Corporate Policies and WSPs remained in effect during the Salehs’ period of registration, even though the Compliance Procedures and WSPs overlapped and, in some instances, were not consistent.

During the period from about November 2004 through June 2009, WSI, acting through Lanni in part and other principals, failed to establish, maintain and enforce WSPs reasonably designed to achieve compliance by the Salehs with applicable laws, rules and regulations concerning variable annuities. WSI's Corporate Policies and/or WSPs either did not include provisions or mechanisms to enforce provisions, such as:

- a. information registered representatives and reviewing principals must consider in conducting a suitability analysis regarding the features of variable products, including tax consequences, types and general ranges of fees, insurance aspects, e.g., death benefits, living benefits, or potential lapse of coverage, and related documentation and review thereof;
- b. reasonable guidelines for determining the suitability of a variable annuity for individual customers, including the customer's age, need for immediate income or access to funds, desire for guarantees against loss of their principal and upon what conditions, or sales of variable products in amounts that exceed a pre-determined percentage of net worth, as defined, and related documentation and review thereof;
- c. a comprehensive list of documents registered representatives must use in the sale of variable products;
- d. guidelines describing how the required documents were to be used and which documents were required with each sale, in particular with

respect to the application of the Corporate Policies and WSPs described above, and related review and approval thereof;

- e. methods to analyze objectively the benefits of a variable product over alternative investments, e.g., cost analysis or unique product features, and specific standards or guidelines to be followed regarding when it is appropriate to recommend the initial sale of a variable product, the exchange of a product, and the purchase or the sale of a variable annuity within a retirement or other tax-qualified account, and related documentation and review thereof;
- f. steps for the timing of document completion, e.g., before the sale or after the sale;
- g. guidelines indicating when the supervisor or the firm would contact a customer to verify that the recommendation was suitable;
- h. training of registered representatives regarding the recommendation and sale of variable annuities; and
- i. training of supervisors for reasonable review and approval of variable annuity transactions, including, but not limited to, training regarding responsibilities and authority, necessary documentation, available firm systems and mechanisms to facilitate review, and the application of the Corporate Policies and WSPs, described above.

At all times relevant to the Salehs' misconduct at WSI, the firm also had in effect Compliance Procedures and/or WSPs relating to general retail securities sales and operations

that also were not reasonably designed to achieve compliance with applicable laws and regulations concerning, among other things, pre-hire investigations of prospective registered persons; the accuracy of new account information and documents, including customer addresses, phone numbers, and signatures; customer account address changes; the retention and review of correspondence, including email and fax transmissions; and the review and guarantee of customer signatures. Although WSI nominally had relevant supervisory procedures in place, they were not reasonably designed to achieve compliance because they lacked clear descriptions of processes and standards to follow in performing and supervising related tasks. Further, WSI lacked mechanisms, such as automated exception reports, to monitor compliance and detect misconduct in related areas. As a result, neither the periodic supervisory visits nor the annual compliance audits of the Woodland Hills office detected or deterred the Salehs' extensive misconduct regarding, for example, inaccurate customer contact information and address changes, forgery and falsification of firm and insurance documents, use of a fax machine to transmit to insurance companies without detection unsuitable and unauthorized variable annuity withdrawals and surrenders using forged signatures and falsified signature guarantees, or the electronic creation and transmission to clients of false account statements.

WSI, acting in part through Lanni from about November 2004 through October 2007, failed to establish, maintain, and enforce the existing, amended, and supplemental Compliance Procedures and WSPs regarding the Salehs' business in variable annuities and their general sales practices.

The foregoing acts, practices, and conduct constitute separate and distinct violations of NASD Conduct Rules 3010(b) and 2110 by WSI and Lanni, with respect to conduct that

occurred before December 15, 2008; and NASD Conduct Rule 3010(b) and FINRA Rule 2010, by WSI, with respect to conduct that occurred on or after December 15, 2008.

### **THIRD CAUSE OF ACTION**

#### **(Failure to Supervise the Salehs) (Violation of NASD Conduct Rules 3010 and 2110 by WSI, Lanni, and Vogel, and FINRA Rule 2010 By WSI, Lanni, and Vogel)**

Pursuant to NASD Conduct Rule 3010, WSI was responsible for supervising the Salehs in a manner reasonably designed to achieve the Salehs' compliance with the laws, rules and regulations pertaining to their securities business, including the sales of variable annuities. From about November 2004 to October 2007, Dieb was responsible directly for the supervision of the Salehs and Vogel, and Lanni was responsible directly for the supervision of Dieb. From about October 2007 to the dates of the respective terminations of the Salehs, Lanni was responsible directly for the supervision of the Salehs and Vogel. From about November 2004 to the dates of their respective terminations, Vogel assisted with the supervision of the Woodland Hills office and the Salehs' variable annuity business.

In the foregoing capacities and during the foregoing time periods, Dieb, Lanni, and Vogel each had an obligation pursuant to NASD Conduct Rule 3010 to supervise the Salehs in a manner reasonably designed to achieve compliance with laws, rules and regulations applicable to the Salehs' conduct of a securities business.

During the period from about November 2004 to December 2007, WSI, acting through Dieb, Lanni, and Vogel knew or, based upon facts that were known and upon reasonable inquiry should have known, that the Salehs were engaging in the conduct described above and thereby causing customer harm. Therefore, WSI, acting through Dieb, Lanni, and Vogel, knew or, based upon facts known to them and upon reasonable inquiry should have known, that Debbie

Saleh's and Betty Saleh's conduct and business in variable annuity transactions constituted violations of Section 10(b) of the Exchange Act, Rule 10b-5 promulgated thereunder, and NASD Conduct Rules 2110, 2120, 2310 by the Salehs; and, as to Debbie Saleh, NASD IM-2310-2, and Rule 2510(b); and, as to Betty Saleh, NASD Conduct Rule 3110 and FINRA Rule 2010.

WSI, acting through Dieb, Lanni, and Vogel, failed to supervise the Salehs in a manner reasonably designed to achieve compliance with applicable laws, rules and regulations concerning variable annuities, and the Salehs' misconduct described above. For example, WSI and its principals failed and refused to undertake an objective or comprehensive internal investigation of the Salehs' variable annuity business when they knew or should have known that the Salehs were engaging in violative conduct. The failure reasonably to supervise further is evidenced and illustrated by the following conduct and circumstances:

- a. Dieb and Vogel failed to review transactions thoroughly and approved transactions that were unsuitable and did not comply with the firm's written supervisory and compliance procedures;
- b. Dieb, Lanni, and/or Vogel failed to investigate red flags adequately, by among other things:
  - i. failing to investigate and document adequately the Salehs' employment and compliance history at prior firms;
  - ii. failing to detect or investigate inconsistent written statements and Form U4 and amended U5 filings by Betty Saleh concerning a pending customer complaint;

- iii. failing to investigate adequately a customer complaint pending against Debbie Saleh in October 2004, involving an apparent switch between variable annuity policies;
- iv. failing to investigate adequately Amended Form U5s filed by the Salehs' prior firm disclosing that Debbie Saleh and Betty Saleh were under internal investigation for improper variable annuity sales practices when they resigned, and failing to relate that disclosure to customer complaints both before and after their registration with WSI;
- v. failing to detect patterns among customer complaints relating to suitability, representations, and recordkeeping of the Salehs' variable annuity business;
- vi. failing to identify and verify the source of funds for variable annuity purchases;
- vii. failing to detect or ignoring a pattern of excessive switching, even after it was identified;
- viii. failing to conduct adequate correspondence reviews, in particular, regarding fax and email transmissions from the Woodland Hills office to insurance companies and customers;
- ix. failing to determine the source of inconsistent information regarding customer holdings in variable annuities;

- x. failing to investigate and determine the circumstances related to customer complaints and investigations and actions by various regulatory agencies, including states that refused to register the Salehs;
  - xi. failing to verify customer signatures for past, present and future variable annuity transactions, in particular, after being notified that the Salehs were using correction fluid on annuity withdrawal and disclosure documents;
  - xii. failing to investigate and determine the basis for the Salehs' requests for registration in states other than California, including states in which WSI was not registered to sell insurance products; and
  - xiii. failing to investigate and determine that the account and transaction records for certain variable annuity customers of the Salehs, including, but not limited to, those who were not residents of California, reflected questionable signatures and multiple addresses and telephone numbers that were the residences, post office boxes and/or telephone numbers of the Salehs and/or their close relatives who also had accounts at WSI;
- c. without verification, Dieb, Lanni, and Vogel relied on information provided by Debbie Saleh, Betty Saleh, KM and/or JR, rather than obtaining other, objective information;

- d. without verification, Dieb and Vogel relied on incomplete, cursory, and general descriptions of the basis for recommendation of certain variable annuity transactions that were provided by the Salehs;
- e. Lanni and Dieb failed to put Debbie Saleh or Betty Saleh on heightened supervision in a timely manner after indications of abusive sales practices or other problems were identified; and
- f. Dieb and Vogel failed to identify and prevent manipulative and abusive sales practices, or fraudulent and unsuitable sales to customers, including older or elderly customers.

The failure to supervise the Salehs in a manner reasonably designed to achieve compliance with laws, rules and regulations applicable to securities transactions in variable annuities, constitutes a violation of NASD Conduct Rules 3010 and 2110, by WSI, Lanni, and Vogel, with respect to conduct that occurred before December 15, 2008; and NASD Conduct Rule 3010 and FINRA Rule 2010, by WSI, Lanni, and Vogel, with respect to conduct that occurred on or after December 15, 2008.

#### **FOURTH CAUSE OF ACTION**

**(Failure to Conduct Reasonable Office Inspections and Review of Correspondence)  
(Violation of NASD Conduct Rules 3010(c), 3010(d), 2110 by WSI, Lanni, and Vogel, and  
FINRA Rule 2010 By WSI, Lanni, and Vogel)**

Between about November 2004 and October 2007, Dieb and Vogel, and from about October 2007 to June 2009, Lanni and Vogel, were responsible for and did conduct periodic office inspections of the Woodland Hills office. In addition, the WSI Compliance Department conducted an inspection annually.

During the foregoing periods, the Salehs destroyed transaction documents that reflected variable annuity withdrawals and fax transmissions of unapproved and/or unauthorized variable annuity withdrawal requests to insurance companies. Separately, Debbie Saleh used firm and personal email to transmit to customers falsified statements that purported to reflect variable annuity positions that, in fact, had been reduced or eliminated through partial withdrawals or surrenders. WSI's office inspections failed to detect that the Salehs routinely engaged in the foregoing misconduct, and failed to retain and review the related correspondence.

The foregoing acts, practices, and conduct constitute separate and distinct violations of NASD Conduct Rules 3010(c), 3010(d), and 2110, by WSI, Lanni, and Vogel, with respect to conduct that occurred before December 15, 2008; and NASD Conduct Rules 3010(c), 3010(d), and FINRA Rule 2010, by WSI, Lanni, and Vogel, with respect to conduct that occurred on or after December 15, 2008.

#### **FIFTH CAUSE OF ACTION**

##### **(Failure to Reasonably Investigate Qualifications) (Violation of NASD Conduct Rules 3010(e) and 2110 By WSI)**

WSI, acting through Dieb, had sufficient information at the time the Salehs applied to and were hired by WSI to indicate reasonably that the Salehs had a history of customer complaints, including pending customer complaints, and that the Salehs made material misrepresentations concerning the pending customer complaints to WSI, including on initial and amended Forms U4, involving the sale of variable annuities.

In 2004 and 2005, the States of Hawaii, Colorado, and Illinois initially refused to allow the Salehs to register to conduct securities business in the state.

On or about July 1, 2005, CAW, a customer of Debbie Saleh's, complained to WSI that

Debbie Saleh had engaged in misconduct regarding the sale of variable annuities.

On August 10, 2005, the Salehs' prior firm filed amended Form U5s, in which it disclosed that the Salehs resigned during a firm internal review regarding their variable annuity sales practices.

WSI, acting through Dieb, failed to make reasonable inquiry to resolve the inconsistencies in the Salehs' representations to the firm concerning customer complaints that were pending when they were hired, customer complaints received by WSI within the first year of the Salehs' association, the amended Form U5 filed by the Salehs' former firm, and the regulatory determinations of certain states not to allow the Salehs to register.

The foregoing acts, practices, and conduct constitute separate and distinct violations of NASD Conduct Rules 3010(e) and 2110 by WSI.

### **SIXTH CAUSE OF ACTION**

#### **(Failure to Maintain Adequate Books and Records) (Violation of Section 17 of the Exchange Act and Rules 17a-3 and 17a-4 promulgated thereunder, and NASD Conduct Rules 3110 and 2110 and FINRA Rule 2010 by WSI)**

During the period November 2004 to June 2009, WSI's books and records were deficient in the following respects:

- a. WSI's daily record of transactions did not include variable annuity transactions;
- b. WSI did not maintain variable annuity statements, withdrawal forms, prospectus receipts, switch letters, records of surrender fees paid, or other documentation relating to sales of variable annuity products, and further did not maintain portfolio summaries created by Debbie Saleh and

provided to clients that falsely purported to reflect customer holdings;  
and

- c. Customer account statements frequently reflected withdrawals from variable annuities as a receipt of "interest."

The foregoing acts, practices, and conduct constitute separate and distinct violations of NASD Conduct Rules 3110 and 2110 and violations of Section 17 of the Exchange Act and Rules 17a-3 and 17a-4 promulgated thereunder with respect to conduct that occurred before December 15, 2008; and NASD Conduct Rule 3110 and FINRA Rule 2010 and violations of Section 17 of the Exchange Act and Rules 17a-3 and 17a-4 promulgated thereunder with respect to conduct that occurred on or after December 15, 2008, by WSI.

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 Respondents be sanctioned as follows:

1. As to Wedbush Securities, Inc., a censure and fine in the amount of \$375,000.00.
2. As to Respondent Lanni, a fine in the amount of \$10,000.00, joint and several with WSI, and a 60-day suspension from association with any FINRA member firm in a principal capacity.

3. As to Respondent Vogel, a fine in the amount of \$5,000.00, joint and several with WSI, and a one month suspension from association with any FINRA member firm in a principal capacity.

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

A handwritten signature in cursive script, reading "Cynthia A. Kittle", is written over a horizontal line.

Cynthia A. Kittle, Senior Regional Counsel  
FINRA Department of Enforcement  
300 S. Grand Avenue, Suite 1600  
Los Angeles, CA 90071  
(213) 613-2616; Fax: (213) 617-1570  
cynthia.kittle@finra.org