

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO 20080132252-01**

TO: Department of Market Regulation
Financial Industry Regulatory Authority ("FINRA")

RE: Wedbush Securities Inc., Respondent
Broker-Dealer
CRD No. 877

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Wedbush Securities Inc. (the "firm") submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described below. This AWC is submitted on the condition that, if accepted, FINRA will not bring any future actions against the firm alleging violations based on the same factual findings described herein.

I.

ACCEPTANCE AND CONSENT

- A. The firm hereby accepts and consents, without admitting or denying the findings, 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, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by FINRA:

BACKGROUND

The firm became a member of FINRA in 1955, and its registration remains in effect. The firm has the following relevant disciplinary history:

- In January 2007, FINRA accepted the firm's AWC (20050002518) in which it agreed to a censure and a total fine of \$35,000, which included a \$5,000 fine for OATS violations in February 2004.

SUMMARY

This matter is the result of the Department of Market Regulation's review of the firm's compliance with rules relating to the Trade Reporting and Compliance Engine ("TRACE") from October 1 to December 31, 2007 (matter no. 20080132252) and the firm's 2008 Trading and Market Making Surveillance ("TMMS") Examination (matter No. 20080144060).

FACTS AND VIOLATIVE CONDUCT

20080132252

1. From October 1 to December 31, 2007, the firm failed to report to TRACE 190 transactions in TRACE-eligible securities within 15 minutes of the time of execution. The firm also failed to report to TRACE the correct time of trade execution for 12 transactions in TRACE-eligible securities. These transactions constituted approximately 15 percent of all transactions in TRACE-eligible securities (1,260) that the firm was required to report to TRACE during the period October 1 through December 31, 2007. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6230(a) and (c)(8) and a pattern or practice of late reporting without exceptional circumstances in violation of NASD Rule 2110.

20080144060

The on-site portion of the 2008 TMMS examination took place from September 29 to October 2, 2008. Attached as an exhibit is a list of the items the staff reviewed during the on-site examination for trade date June 17, 2008.

2. On June 17, 2008, the firm transmitted to OATS 13 reports that contained inaccurate, incomplete, or improperly formatted data. Specifically, in nine instances, the firm incorrectly reported the Order Type Code. In two instances, it failed to submit a Route Report. In one instance, it reported an incorrect order entry time, and in another instance it incorrectly submitted a cancellation flag. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 6955(a).
3. On June 17, 2008, in nine instances, the firm provided incorrect written information to its customers. Specifically, in four instances, the firm failed to provide written notification disclosing to its customer its correct capacity in the transaction. In three instances, when it acted as principal for its own account, the firm failed to provide written notification disclosing to its customer the correct reported trade price. In two instances, the firm failed to provide written notification disclosing to its customer its correct capacity in the transaction and the correct reported trade price. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 10b-10.
4. For the month of June 2008, the firm made available a report on the covered orders in national market system securities that it received for execution from any person. Specifically, in two instances, the report included incorrect information as to the number of covered orders executed by the firm. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 605 of Regulation NMS.

B. The firm also consents to the imposition of the following sanctions:

• A censure and a total fine of \$28,000, as follows:

- \$7,500 for the TRACE violations
- \$7,500 fine for the OATS violations.
- \$3,000 for violations of SEC Rule 10b-10
- \$10,000 for violations of SEC Rule 605

The firm agrees to pay the monetary sanctions upon notice that this AWC has been accepted and that such payments are due and payable. The firm has submitted an Election of Payment form showing the method by which it proposes to pay the fine imposed.

The firm specifically and voluntarily waives any right to claim that it is unable to pay, now or at any time hereafter, the monetary sanctions imposed in this matter. The sanctions imposed herein shall be effective on a date set by FINRA staff.

II.

WAIVER OF PROCEDURAL RIGHTS

The firm specifically and voluntarily waives the following rights granted under FINRA's Code of Procedure:

- A. To have a Complaint issued specifying the allegations against the firm;
- B. To be notified of the Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. To appeal any such decision to the NAC and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.

Further, the firm specifically and voluntarily waives any right to claim bias or prejudgment of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

The firm further specifically and voluntarily waives any right to claim that a person violated the ex parte prohibitions of FINRA Rule 9143 or the separation of functions prohibitions of FINRA Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

III.

OTHER MATTERS

The firm understands that:

- A. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by the NAC, a Review Subcommittee of the NAC, or the Office of Disciplinary Affairs ("ODA"), pursuant to FINRA Rule 9216;
- B. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against the firm; and
- C. If accepted:
 - 1. this AWC will become part of the firm's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against the firm;
 - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about the firm's disciplinary record;
 - 3. FINRA may make a public announcement concerning this agreement and the subject matter thereof in accordance with FINRA Rule 8313; and
 - 4. The firm may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any finding in this AWC or create the impression that the AWC is without factual basis. The firm may not take any position in any proceeding brought by or on behalf of FINRA, or to which FINRA is a party, that is inconsistent with any part of this AWC. Nothing in this provision affects the firm's right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

- D. The firm may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. The firm understands that it may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by FINRA, nor does it reflect the views of FINRA or its staff.

The undersigned, on behalf of the firm, certifies that a person duly authorized to act on its behalf has read and understands all of the provisions of this AWC and has been given a full opportunity to ask questions about it; that it has agreed to the AWC's provisions voluntarily; and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein and the prospect of avoiding the issuance of a Complaint, has been made to induce the firm to submit it.

8-27-10
Date

Respondent
Wedbush Securities Inc.

By: Christina R. Fuchart

Name: CHRISTINA R. FUCHART

Title: Senior Vice President

Reviewed by:

[Signature]
Counsel for Respondent

Accepted by FINRA:

10/18/10
Date

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

Thomas R. Gira
Thomas R. Gira
Executive Vice President
Department of Market Regulation

Wedbush Morgan Securities Inc.
2008 Trading and Market Making Examination
Matter No. 20080144060

The staff reviewed the following samples during the examination:

<u>Sample Size</u>	<u>Review Area</u>	<u>Sample Source</u>
29	Sales transactions, for compliance with SEC Rule 200(g).	from trade date June 17, 2008
1	Short sale, for compliance with SEC Rule 203(b) locate requirements	from trade date June 17, 2008
638	Trades reported to a TRF or OTCRF, for compliance with NASD Rule 6130	from trade date June 17, 2008
All provided by firm	Disclosures to customers relating to trading in extended hours session, for compliance with Nasdaq Rule 4631	from trade date June 17, 2008
35	Orders, for compliance with best execution requirements of NASD Rule 2320	from trade date June 17, 2008
29	Orders entered into a Nasdaq execution system, for compliance with Nasdaq Rules 2110 and 4755	from trade date June 17, 2008
50	Orders in securities required to be submitted to OATS, for compliance with NASD Rules 6954 and 6955 and Nasdaq Rules 6954 and 6955	from trade date June 17, 2008
25	Orders for NMS securities in which the firm acts as a market center, for compliance with SEC Rule 605 order classification requirements	from trade date June 17, 2008
5	Data sets, for compliance with SEC Rule 605 requirement to publish accurate data (a 'data set' encompasses all required statistical data for single security and order type/size category, as described in SEC Rule 605)	from the report for June 2008
1	Quarterly routing report, for compliance with SEC Rule 606 requirements	July – September 2008
13	CRD registration records for persons conducting or supervising firm's trading and market making activities, for compliance with NASD Rule Series 1020, 1030 and 1040 and Nasdaq Rule Series 1020, 1030 and 1040	Personnel in place during month of June 2008

<u>Sample Size</u>	<u>Review Area</u>	<u>Sample Source</u>
13	customer trade confirmations reviewed in connection with the above samples, for compliance with SEC Rule 10b-10	from trade date June 17, 2008
127	Records prepared and maintained in connection with the above samples, for compliance with NASD Rule 3110 and SEC Rules 17a-3 and 17a-4	from trade date June 17, 2008
N/A	Firm's "regular and rigorous" review procedures regarding order execution quality, for compliance with NASD Rules 2320 and 3010	based on WSPs in effect in June 2008
N/A	Firm's supervisory and operational policies and procedures and documentation evidencing execution of the policies and procedures, for compliance with SEC Rules 610, 611 and 612	based on WSPs in effect in June 2008
N/A	the firm's establishment and implementation of a supervisory system and written supervisory procedures (including documentation evidencing execution of the policies and procedures), for compliance with NASD Rule 3010	based on WSPs in effect in June 2008