

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20090166413-01**

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

RE: Wedbush Securities Inc.¹
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 has been a member of FINRA since July 30, 1955, and its registration remains in effect.

RELEVANT DISCIPLINARY HISTORY

On October 20, 2010, FINRA accepted an AWC in connection with 20080132252 in which the firm was fined \$28,000, of which \$7,500 was for TRACE reporting violations that occurred from October 1, 2007 through December 31, 2007.

On April 6, 2010, FINRA accepted an AWC in connection with 20080141758 in which the firm was fined \$10,000 for trade reporting violations that occurred from September 1, 2007 through December 31, 2007.

¹ Prior to April 19, 2010, the firm was known as Wedbush Morgan Securities Inc.

On September 24, 2008, FINRA accepted an AWC in connection with 20060042923 in which the firm was fined \$24,000, of which \$14,000 was for trade reporting violations that occurred from May 1, 2006 through August 31, 2006.

SUMMARY

In connection with 20090166413, the Short Interest staff of FINRA's Department of Market Regulation ("Market Regulation") reviewed the firm's short interest reporting during the period June 30, 2008 through June 30, 2010 (the "2008-2010 Short Interest review period").

In connection with 20110277621, the Short Interest staff of Market Regulation reviewed the firm's short interest reporting for settlement date February 28, 2011 (the "2011 Short Interest review period").

In connection with 20100231657, the Trade Reporting staff of Market Regulation reviewed the firm's equity trade reporting for the period January 1, 2010 through April 30, 2010 (the "1T10 Trade Reporting review period").

In connection with 20110297688, the Trade Reporting and Compliance Engine ("TRACE") staff of Market Regulation reviewed the firm's TRACE reporting of agency bond transactions for the period July 1, 2011 through September 30, 2011 (the "3Q11 TRACE review period").

FACTS AND VIOLATIVE CONDUCT

20090166413 (Short Interest 2008-2010)

1. For two settlement dates during the 2008-2010 Short Interest review period, the firm submitted to FINRA its short interest position reports. These reports included three short interest positions totaling 9,013 shares when it should have reported three short interest positions totaling 10,163 shares. In addition, the firm failed to report 12 short interest positions totaling 46,350 shares. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 3360.
2. For two settlement dates during the 2008-2010 Short Interest review period, the firm submitted to FINRA its short interest position reports. These reports included three short interest positions for certain Nasdaq, NYSE, NYSE Amex, NYSE Arca, and OTC equity securities totaling 19,722 shares, when the firm should have reported three short interest positions totaling 21,222 shares for these securities. The conduct described in this paragraph constitutes separate and distinct violations of Incorporated NYSE Rule 421.

3. For 13 settlement dates during the 2008-2010 Short Interest review period, the firm submitted to FINRA its short interest position reports. These reports included 3,304 short interest positions totaling 39,893,000 shares, when the firm should have reported 3,304 short interest positions totaling 43,503,047 shares. In addition, the firm failed to report 2,498 short interest positions totaling 2,771,842 shares. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 4560.¹

20110277621 (Short Interest 2011)

4. For settlement date February 28, 2011, the firm submitted to FINRA its short interest position report. This report included 23 short interest positions totaling 575,914 shares, when the firm should have reported 26 short interest positions totaling 880,478 shares. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 4560.

20090166413 and 20110277621 (Inadequate Written Supervisory Procedures)

5. During the 2008-2010 and 2011 Short Interest review periods, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, and the Rules of FINRA, concerning short interest reporting. Specifically, the firm's supervisory system did not include written supervisory procedures providing for: (1) the identification of the person(s) responsible for supervision with respect to the applicable rules; (2) a statement of the supervisory step(s) to be taken by the identified person(s); (3) a statement as to how often such person(s) should take such step(s); and (4) a statement as to how the completion of the step(s) included in the written supervisory procedures should be documented. The conduct described in this paragraph constitutes violations of NASD Rules 3010 and 2110 and, after December 15, 2008, FINRA Rule 2010.²

20100231657 (Trade Reporting)

6. During the 1T10 Trade Reporting review period, the firm failed, within 90 seconds after execution, to transmit to the FINRA/Nasdaq Trade Reporting Facility ("FNTRF") 4,094 last sale reports of transactions in NMS securities. These transactions constitute approximately 60% of the transactions reviewed that the firm reported to the FNTRF during the 1T10 Trade Reporting review period. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rules 6380A(a) and a pattern or practice of late reporting without exceptional circumstances in violation of FINRA Rule 2010.

¹ Effective December 15, 2008, FINRA Rule 4560 incorporated NASD Conduct Rule 3360 and NYSE Rule 421.

² Effective December 15, 2008, NASD Rule 2110 was renumbered as FINRA Rule 2010.

20110297688 (TRACE)

7. During the 3Q11 TRACE review period, the firm failed to report to TRACE 50 S1 transactions in TRACE-eligible Agency Debt securities within 15 minutes of the time of execution. These late transactions constituted approximately 10% of the total number of S1 transactions TRACE-eligible Agency Debt securities that the firm reported to TRACE during the review period. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 6730(a) and a pattern or practice of late reporting without exceptional circumstances in violation of FINRA Rule 2010.

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

A censure and a fine of \$87,500 (\$35,000 for the short interest reporting violations in 20090166413; \$7,500 for the short interest reporting violations in 20110277621; \$12,500 for the inadequate written supervisory procedures identified in 20090166413 and 20110277621; \$25,000 for the trade reporting violations; and \$7,500 for the TRACE violations), and an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraph 3 in Section A above. Within 90 business days of acceptance of this AWC by the NAC, a registered principal of the Respondent shall submit to the **COMPLIANCE ASSISTANT, LEGAL SECTION, MARKET REGULATION DEPARTMENT, 9509 KEY WEST AVENUE, ROCKVILLE, MD 20850**, a signed, dated letter, or an e-mail from a work-related account of the registered principal to MarketRegulationComp@finra.org, providing the following information: (1) a reference to this matter; (2) a representation that the firm has revised its written supervisory procedures to address the deficiencies described in this paragraph; and (3) the date the revised procedures were implemented.

The firm agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable. It 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 sanction(s) 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 National Adjudicatory Council ("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: (i) testimonial obligations; or (ii) 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.

9/16/13
Date

Respondent
Wedbush Securities Inc.

By: [Signature]

Name: JOYCE J. [Signature]

Title: CEO

Reviewed by:

[Signature]
Counsel for Respondent

Accepted by FINRA:

9/27/13
Date

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

[Signature]
Gerard P. Finn
Chief Counsel
Department of Market Regulation