

**FINANCIAL INDUSTRY REGULATORY AUTHORITY  
LETTER OF ACCEPTANCE, WAIVER AND CONSENT  
NO. 2010023133201**

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

RE: Western International Securities, Inc., Respondent  
Member Firm  
CRD No. 39262

Pursuant to FINRA Rule 9216 of FINRA's Code of Procedure, Respondent Western International Securities, Inc. ("Respondent") 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 Respondent alleging violations based on the same factual findings described herein.

**I.**

**ACCEPTANCE AND CONSENT**

- A. Respondent 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**

Western International Securities, Inc. ("Western" or the "Firm") has been a FINRA member since 1995, and its registration remains effective. Western is a full-service broker-dealer with its main office located in Pasadena, California. It employs over 300 registered representatives and maintains 97 branch offices nationwide.

**RELEVANT DISCIPLINARY HISTORY**

Western has no relevant disciplinary history.

## **OVERVIEW**

Two FINRA examinations of Western revealed that the Firm failed to enforce written supervisory procedures ("WSPs") relating to supervising private securities transactions of registered representatives who were also approved to conduct activities as registered investment advisers. Western also failed to enforce WSPs to preserve and review email of one registered representative.

## **FACTS AND VIOLATIVE CONDUCT**

### **Failure to Enforce WSPs to Supervise Beckman's Private Securities Transactions and Retail Forex Activities**

1. From February 28, 2008 through May 5, 2009 ("Relevant Period"), Jason Bo-Alan Beckman ("Beckman") was registered with Western as a general securities representative. Beckman was located in a branch office in Minneapolis, Minnesota and supervised from Western's principal office in Pasadena, California.
2. During the Relevant Period, Western approved Beckman to conduct investment adviser activities through "The Oxford Private Client Group, LLC" ("Oxford PCG"). Beckman was a 100% owner of Oxford PCG and exercised control over all of its investment decisions. Oxford PCG was registered with the Securities and Exchange Commission ("SEC") since 2005. During the Relevant Period, Beckman, acting through Oxford PCG, advised others for compensation about investments in securities; such activities included: providing discretionary investment supervisory services; acting as a portfolio manager on behalf of a registered mutual fund under the Investment Company Act of 1940; and offering customers the opportunity to invest in retail forex.
3. Specifically, Beckman's retail forex activities involved soliciting certain Western customers and members of the public, through Oxford PCG, to invest in a foreign currency trading program ("Currency Program") offered on behalf of Oxford Global Advisors, LLC ("OGA") and Oxford Global Partners, LLC ("OGP"), both of which were non-registered business entities. Beckman, acting through Oxford PCG, represented to investors that: (i) funds would be invested in the Currency Program and used exclusively for foreign currency trading; (ii) funds would be held in segregated accounts; and (iii) the Currency Program would generate profits and returns ranging from 10.5% to 12% with little to no risk. These representations were false and, as a result of Beckman's misconduct, investors in the Currency Program suffered significant losses.

4. The investments in the foreign Currency Program were securities in the form of investment contracts. Beckman's offer and sale of investments in the Currency Program constituted private securities transactions under NASD Rule 3040. Beckman was paid commissions of 4% of the principal that his investors contributed to the Currency Program, which constituted selling compensation as defined by NASD Rule 3040(e)(1). By March 2009, Beckman and Oxford PCG had over \$23 million in assets invested in the Currency Program, which included funds invested by Western customers.
5. Under NASD Rule 3040(c) and Western's WSPs, Western was required to supervise the private securities transactions involving the Currency Program conducted by Beckman, acting through Oxford PCG, in a manner reasonably designed to achieve compliance with NASD and FINRA rules. Western failed to do so.
6. In December 2008, Western adopted "Specific Procedures" for the supervision of Beckman and Oxford PCG's forex trading activities. The "Specific Procedures" required Beckman to disclose to Western: (i) his outside business activities related to OGA and OGP; (ii) his ownership and management role with OGA and OGP; and (iii) a description of his currency trading activities and Beckman's relationship to the entity that performed those services. The "Specific Procedures" also required Western to supervise Beckman's forex activities by:
  - Overseeing the forex trading activities and statements reflecting trading activity as more fully described in Regulatory Notice 08-66;
  - Reviewing all claims of performance represented to investors about forex activities and scrutinizing all specific rates of return or claims of above market returns to ensure that sufficient documentary evidence existed to support such claims;
  - Conducting regular surprise examinations to review the activities of Beckman's office;
  - Reviewing custodial arrangements and agreements and comparing these documents with customer account statements to determine if the assets were, in fact, held in accounts with the customer's name; and
  - Examining the currency trading activities of Beckman, OGA, and OGP.

7. Western never implemented the "Specific Procedures" described above.
8. Western failed to enforce WSPs reasonably designed to achieve compliance with laws, rules and regulations applicable to supervise Beckman's private securities transactions involving the Currency Program conducted through Oxford PCG. Western further failed to enforce WSPs reasonably designed to detect and prevent Beckman's misconduct through Oxford PCG related to forex trading activities.
9. Based on the foregoing, Western violated NASD Rules 3010(b) and 3040(c), and NASD Rule 2110, for conduct occurring before December 15, 2008, and FINRA Rule 2010, for conduct occurring on or after December 15, 2008.

Western Failed to Preserve and Review All of Beckman's Emails

10. NASD Rule 3110(a) provides, in pertinent part, "[e]ach member shall make and preserve books, accounts, records, memoranda, and correspondence in conformity with all applicable laws, rules, regulations, and statements of policy promulgated thereunder and ... [t]he record keeping format, medium and retention period shall comply with Rule 17a-4 under the Securities Exchange Act of 1934."
11. Section 17(a) of the Securities Exchange Act of 1934 and Rule 17a-4(b)(4) thereunder, requires, in pertinent part, that every broker dealer preserve "originals of all communications received and copies of all communications sent ... by such member, broker or dealer (including inter-office memoranda and communications) relating to its business as such."
12. NASD Rule 3010(b) requires a member to "establish, maintain, and enforce written procedures to supervise the types of business in which it engages and to supervise the activities of registered representatives, registered principals, and other associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with the applicable Rules of [NASD and FINRA]."
13. NASD Rule 3010(d)(2) requires firms to develop written procedures for the review of incoming and outgoing written (i.e., non-electronic) and electronic correspondence with the public relating to its investment banking or securities business of such member.

14. During the Relevant Period, Western's WSPs mandated that the Firm preserve employee securities and business related email and to review, on a daily basis, incoming and outgoing emails for registered representatives that are identified through sampling or filtering techniques utilized by the Firm.
15. While registered with Western from February 28, 2008 through May 5, 2009, Beckman utilized an Oxford PCG email address and his emails were captured by a third party vendor that hosted Oxford PCG's server. Western's procedures allowed Beckman to utilize an outside email vendor with the condition that Beckman's securities and business related emails would be forwarded to an email address hosted on the Firm's internal mail server, where the emails would be captured and retained.
16. On several occasions between October 2008 and February 2009, Western's electronic storage media vendor notified Western that it was not capturing Beckman's email communications. Despite these red flags, Western failed to take adequate steps to ensure that Beckman's emails were captured and preserved by the Firm.
17. Western failed to retain thousands of Beckman's emails between February 28, 2008 and May 5, 2009. Had Western captured all of Beckman's securities and business related emails and conducted a review of these emails, it may have alerted the Firm that Beckman was involved in misconduct in connection with his retail forex activities.
18. Based on the foregoing, Western failed to maintain and preserve Beckman's emails, in violation of Section 17(a) of the Securities Exchange Act of 1934, and Rule 17a-4 thereunder, NASD Rule 3110, and NASD Rule 2110, for conduct before December 15, 2008, and FINRA Rule 2010, for conduct on or after December 15, 2008. Western also failed to enforce its WSPs requiring the Firm to review Beckman's, incoming and outgoing, securities and business related emails in violation of NASD Rule 3010(b), NASD Rule 3010(d)(2), and NASD Rule 2110, for conduct before December 15, 2008, and FINRA Rule 2010, for conduct on or after December 15, 2008.

Failure to Maintain Adequate WSPs to Supervise JMC's Private Securities Transactions

19. Since May 4, 2012, JMC has been associated with Western as a general securities representative and general securities principal. JMC is located in a branch office in Los Angeles, California.

20. On May 11, 2012, Western approved JMC to conduct investment adviser activities through TIHLLC. TIHLLC has been registered with the SEC since May 2012. JMC is the majority owner of TIHLLC and exercises control over its investment decisions. At the time Western approved JMC's investment advisory activities, TIHLLC's advisory services were limited to providing portfolio management services to individuals and pension plans.
21. Western's WSPs prohibited its registered representatives from engaging in investment adviser activities unless the advisory services were specifically authorized by the Firm. Western's WSPs were inadequate because the procedures: (i) did not specify how the Firm would document what investment adviser services it had approved; (ii) did not provide guidance for evaluating whether the investment adviser activities should be treated as private securities transactions subject to requirements of NASD Rule 3040; (iii) did not specify when and how often the Firm would review a registered representative's investment adviser Form ADV filings with the SEC, or identify who at the Firm was responsible for conducting the review; (iv) did not specify how the firm would monitor a registered representative's investment adviser services; and (v) did not establish a record keeping system for maintaining information and documents related to the Firm's due diligence conducted on approved investment advisers and related activities.
22. On July 1, 2012, JMC became co-portfolio manager of TIHGF, an open-end mutual fund registered under the Investment Company Act of 1940. TIHLLC received compensation as the investment adviser to TIHGF. Therefore, as of July 1, 2012, Western was required to supervise JMC's private securities transactions related to TIHGF under NASD Rule 3040. JMC directed certain securities transactions for TIHGF, through Western's clearing firm, and other securities transactions away from Western. Western failed to record certain securities transactions directed away from Western on its books and records as prescribed in the Firm's WSPs.
23. Western did not become aware of JMC's private securities transactions related to TIHGF until the FINRA staff brought the activity to the Firm's attention in June 2013, during the Firm's routine examination. On August 28, 2013, Western approved JMC, acting through TIHLLC, to engage in private securities transactions related to TIHGF, and Western requested JMC to provide duplicate confirmations and statements for TIHGF's brokerage accounts.

24. Based on the foregoing, in May 2012, Western failed to implement adequate written procedures to evaluate JMC's proposed investment adviser activities to determine whether the activity should have been treated as an outside securities activity subject to the requirements of NASD Rule 3040, in violation of FINRA Rules 3270.01 and 2010. From July 2012 to August 2013, Western further failed to detect and prevent JMC from engaging in private securities transactions related to TIHGF that had not been previously approved by the Firm, and failed to record certain transactions of TIHGF on its books and records, in violation of NASD Rule 3010(b), NASD Rule 3040(c), and FINRA Rule 2010.

B. Respondent also consents to the imposition of the following sanctions:

1. A censure; and
2. A fine in the amount of \$80,000.00.

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

Respondent 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**

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

- A. To have a Complaint issued specifying the allegations against it;
- 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, Respondent specifically and voluntarily waives any right to claim bias or prejudgment of the Chief Legal Officer, 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.

Respondent 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**

Respondent 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 it; and
- C. If accepted:
  - 1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future actions brought by FINRA or any other regulator against it;
  - 2. this AWC will be made available through FINRA's public disclosure program in response to public inquiries about Respondent'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. Respondent 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. Respondent 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 Respondent'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. Respondent may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. Respondent 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 the Firm has agreed to its 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.

7/17/2014  
Date (mm/dd/yyyy)

 **BRAD KAISER**  
CHIEF COMPLIANCE OFFICER  
Western International Securities, Inc., Respondent  
By: Donald Bizub, Chief Executive Officer

Reviewed by:

  
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Accepted by FINRA:

09/05/2014  
Date

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

  
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