

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT**

NO. 20110261076 - 03

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

On April 19, 2010, the firm changed its name from Wedbush Morgan Securities Inc. to Wedbush Securities Inc. The firm has been a member of FINRA since July 30, 1955 and its registration remains in effect. The firm has the following relevant disciplinary history:

In October 2010, FINRA accepted the firm's AWC (20080132252) in which it agreed to a censure and a total fine of \$28,000 for the violations identified in connection with the firm's 2008 TMMS examination, which included a \$7,500 fine for Order Audit Trail System ("OATS") reporting violations and a \$3,000 fine for SEC Rule 10b-10 violations.

SUMMARY

In connection with the 2011 TMMS examination, 20110261076, the staff reviewed the items set forth on Exhibit A, which is attached and incorporated by reference, primarily for trade dates March 15, 2011 and March 16, 2011 (the "2011 TMMS review period").

In connection with the 2012 TMMS examination, 20120316448, the staff reviewed the items set forth on Exhibit B, which is attached and incorporated by reference, primarily for trade dates June 6, 2012 and June 7, 2012 (the "2012 TMMS review period").

In connection with the 2012 TMMS examination, 20120351977, the staff reviewed the firm's compliance with registration requirements during the 2012 TMMS review period.

In connection with matter 20130359174, the staff reviewed for the firm's compliance with Trade Reporting and Compliance Engine ("TRACE") reporting requirements during the period October 1, 2012 through December 31, 2012 (the "TRACE review period").

FACTS AND VIOLATIVE CONDUCT

20110261076

1. During the 2011 TMMS review period, the firm transmitted to OATS 33 reports that contained inaccurate, incomplete, or improperly formatted data. Specifically, the reports contained omitted or inaccurate: (a) execution reports, (b) account type codes, (c) cancel/replace reports, and (d) desk reports. These inaccurate and/or incomplete reports represented 66 percent of the sample (50) the TMMS staff reviewed. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.
2. During the 2011 TMMS review period, the firm failed on 10 occasions to provide written notification disclosing to its customers that the transactions were executed at average prices, that transaction details were available upon request, its capacity in the transactions, and/or that it charged commissions or commission equivalents. These inaccurate and/or incomplete notifications represented 38 percent of the sample (26) the TMMS staff reviewed. The conduct described in this paragraph constitutes separate and distinct violations of Securities Exchange Act of 1934 ("Exchange Act") Rule 10b-10.
3. During the 2011 TMMS review period, the firm failed to prepare accurate books and records in 1,490 instances. Specifically, the firm's trading ledger contained the following errors: (1) in one instance the firm failed to include the order entry, receipt, and execution time; (2) in one instance the firm failed to include customer account name; and (3) in 1,488 instances the firm failed to mark sell transactions as short. The inaccurate and/or incomplete records represented 15 percent of the sample (10,036) the TMMS staff reviewed. The conduct described in this paragraph constitutes separate and distinct violations of NASD Rule 3110 and Exchange Act Rule 17a-3.
4. During the 2011 TMMS review period, the firm failed to properly mark 187 proprietary sell orders as long and failed to mark 61 sale orders as short and as a result, the firm failed to report these transactions to various exchanges with the correct symbol indicating whether the transactions were long or short. These inaccurate sale orders represented 45 percent of the sample (418) the TMMS staff reviewed. The conduct described in this paragraph constitutes separate and distinct violations of Exchange Act Rule 200(g) of Regulation SHO.

5. During the 2011 TMMS review period, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to certain applicable securities laws and regulations, and/or the Rules of FINRA. At a minimum, adequate written supervisory procedures addressing quality of markets topics should describe the following:
- (a) specific identification of the individual(s) responsible for supervision;
 - (b) the supervisory steps and reviews to be taken by the appropriate supervisor;
 - (c) the frequency of such reviews; and
 - (d) how such reviews shall be documented.

The firm's written supervisory procedures failed to provide for one or more of the four above-cited minimum requirements for adequate written supervisory procedures, in the following subject area:

- Accurately Identify Buy, Short Sale, and Long Sale Information [a – d];
- Clearly Erroneous Filings – Review and Verify Clearly Erroneous Transactions, Review and Detection of Potential Order Entry Errors [a – d].

The firm failed to provide evidence of supervisory review for the following area:

- Accuracy of Books and Records.

The conduct described in this paragraph constitutes violations of FINRA Rule 2010 and NASD Rule 3010.

20120316448

6. During the 2012 TMMS review period, the firm transmitted to OATS 24 reports that contained inaccurate, incomplete, or improperly formatted data. Specifically, the reports contained omitted or inaccurate: (a) execution, cancel/replace, and desk reports, (b) account type, destination, time-in-force, and special handling codes, (c) market participant identifiers, and (d) timestamps, cancelled, and customer instruction flags. These inaccurate and/or incomplete reports represented 32 percent of the sample (75) the TMMS staff reviewed. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 7450.
7. During the 2012 TMMS review period, the firm failed on nine occasions to provide written notification disclosing to its customers that the transactions were executed at average prices, that transaction details were available upon request, its capacity in the transactions, and/or that it charged commissions or commission equivalents. These inaccurate and/or incomplete notifications represented 37 percent of the sample (24) the TMMS staff reviewed. The conduct described in this paragraph constitutes separate and distinct violations of Exchange Act Rule 10b-10.
8. During the 2012 TMMS review period, the firm failed to prepare or maintain accurate books and records in 406 instances. These inaccurate records represented 56 percent of the sample (725) the TMMS staff reviewed. Specifically, the firm's trading ledger contained the following errors: (1) in 396

instances, the firm failed to mark sell transactions as short; (2) in five instances, the firm failed to include the opt-in/opt-out notice for its institutional customers; and (3) in two instances the firm failed to identify orders as long or short. In addition, the firm failed to include customer account number on three brokerage orders and failed to include the correct sell order quantity on one brokerage order. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 4511 and Exchange Act Rules 17a-3 and 17a-4.

9. During the 2012 TMMS review period, the firm failed to properly mark 20 sell orders as long or short and as a result, also failed to report the transactions to various exchanges with the correct symbol indicating whether the transactions were long or short. These inaccurate orders represented 26 percent of the sample (76) the TMMS staff reviewed. The conduct described in this paragraph constitutes separate and distinct violations of Exchange Act Rule 200(g) of Regulation SHO.

20120351977

10. Throughout the 2012 TMMS review period, a registered representative engaged in proprietary trading and routed customer orders for execution when he was not properly licensed to engage in this trading activity. The registered representative was required to hold a general securities representative license (Series 7) and an equity trader's license (Series 55). The Series 7 license allows registered representatives to interact with customers and sell securities and is a prerequisite for the Series 55 license. The Series 55 license allows registered representatives to trade equity and convertible debt securities on a principal or agency basis. The registered representative lacked the required FINRA licenses to engage in proprietary trading and routing customer orders for execution.
11. As a result of allowing a registered representative to engage in proprietary trading and routing customers' orders for execution on behalf of the firm without being properly registered as a general securities representative and equity trader, the firm violated NASD Rules 1031 and 1032, and FINRA Rule 2010.

20130359174

12. During the TRACE review period, the firm failed to report to TRACE 76 transactions in TRACE-eligible Securitized Products within 15 minutes of the time of execution. These late transactions constituted 6.7 percent of the transactions the firm reported to TRACE during the TRACE review period. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 6730 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 fine of \$67,500 comprised of:

- \$7,500 fine for OATS reporting violations;
- \$10,000 fine for Securities Exchange Act Rule 10b-10 violations;

- \$12,500 fine for books and records violations;
- \$12,500 fine for Securities Exchange Act Rule 200(g) of Regulation SHO violations;
- \$5,000 fine for the registration violations;
- \$7,500 fine for the TRACE reporting violations;
- \$12,500 fine for deficient supervisory procedures and failure to provide evidence of supervisory review;¹ and
- an undertaking to revise the firm's written supervisory procedures with respect to the areas described in paragraphs four and eight.

Within 30 business days of acceptance of this AWC by the National Adjudicatory Council ("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 paragraph five; 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.

¹ The \$12,500 fine for deficient supervisory procedures and failure to provide evidence of supervisory review includes the supervisory violations identified in matters 20110261076 and 20120316448.

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: (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.

11/20/14

~~Wedbush Securities Inc.~~

Name: _____

GARY WEBB

EVP

Attorney Name

12/9/2014

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

Robert Marchman, Executive Vice President
Department of Market Regulation

Exhibit A 20110261076

<u>Sample Size</u>	<u>Sample Description</u>
418	Sales reviewed for compliance with SEC Rule 200(g) long/short sale recording requirements
100	Short Sales reviewed for compliance with SEC Rule 203(b) security location requirements
0	Sales reviewed for compliance with SEC Rule 204 fail-to-deliver requirements
204	Sell trades reported to a TRF or OTCRF for compliance with sale indicator requirements, FINRA Rules 6182 or 6624
57	Sell orders entered into Nasdaq Exchange execution system for compliance with Nasdaq Rule 4755(a)(1)(A) long/short reporting requirements
64	Buy and Sell orders entered into Nasdaq Exchange execution system for compliance with Nasdaq Rule 4611 capacity reporting requirements
27	Sell orders entered into Nasdaq OMX BX execution system for compliance with Nasdaq OMX BX Rule 4755 long/short reporting requirements
20	Sell orders entered into Nasdaq OMX PSX execution system for compliance with Nasdaq OMX PHLX Rule 3305 long/short reporting requirements
84	Sell orders entered into DirectEdge Exchange execution system for compliance with EDGA/EDGX Rule 11.15 long/short reporting requirements
42	Sell orders entered into BATS Exchange execution system for compliance with BATS Z/BATS Y Rule 11.19 long/short reporting requirements
39	Sell orders entered into NYSE-Arca execution system for compliance with NYSE-Arca Equity Rule 7.16 long/short reporting requirements
1	Limit orders for NMS securities in which the member acts as an exchange market maker for compliance with the display requirements of SEC Rules 602 and 604, and Nasdaq Rule 3390
1	Orders for compliance with order protection requirements of NASD Rules 2110, IM-2110-2, 2111, and Nasdaq Rules 2110, IM-2110-2, and 2111

10	Open Limit orders to buy and/or open Stop orders to sell securities that traded ex-dividend for compliance with NASD Rule 3220 and Nasdaq Rule 4761
50	Orders in securities required to be submitted to OATS for compliance with FINRA Rules 7440 and 7450, and Nasdaq Rules 6954 and 6955 requirements
26	Customer confirmations prepared and maintained in connection with select samples for compliance with SEC Rule 10b-10
22	Orders for NMS securities in which the Firm acts as a market center for compliance with SEC Rule 605 order classification requirements on February 24, 2011
7	Data sets published for February 2011 monthly order execution report 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)
1	Quarterly Routing Report for compliance with SEC Rule 606 requirements
22	CRD registration records for persons conducting and/or supervising Firm's trading and/or market making activities for compliance with NASD Rule Series 1020, 1030, 1040 and Nasdaq Rule Series 1020, 1030, 1040
26	Customer orders in OTC equity securities for compliance with NASD Rule 3110(b) requirements to ascertain and document best interdealer market related to execution of orders
1	Disclosures to customers relating to trading in the Extended Hours session for compliance with FINRA Rule 2265 and Nasdaq Rule 4631
25	Customer order records prepared and maintained in connection with the above samples for compliance with SEC Rules 17a-3 and 17a-4, and NASD Rule 3110
9855	Firm execution records prepared and maintained in connection with the above samples for compliance with SEC Rules 17a-3 and 17a-4, and NASD Rule 3110
181	Customer order records prepared and maintained in connection with the above samples for compliance with SEC Rules 17a-3 and 17a-4, and NASD Rule 3110
761	Trades reported to a TRF or OTCRF for compliance with FINRA Rules 6380A and 7230A or 6622 and 7330

All Provided	Member's "Regular & Rigorous" review procedures regarding order execution quality for compliance with NASD Rules 2320 and 3010
All Provided	Member's supervisory and operational policies and procedures and documentation evidencing execution of the policies and procedures for compliance with SEC Regulation NMS Rule 611
All Provided	Member's supervisory system, written supervisory procedures ("WSPs") and documentation evidencing execution of the WSPs for compliance with NASD Rule 3010, Nasdaq/Nasdaq OMX BX Rule 3010 requirements, Nasdaq OMX PSX Rule 748 requirements, BATS Z/BATS Y Rule 5.1/5.5 requirements, EDGA/EDGX 5.1/5.5 requirements, and NYSE Arca Rule 6.18 requirements
N/A	Trading Halts declared during the on-site portion of the examination for which FINRA Staff observed the operation of the ATS.
N/A	Trades reported to the ADF/TRACS for compliance with FINRA Rule 6282
N/A	ADF orders and quotes accessed by other market participants for compliance with FINRA Rule 6250 requirements to submit Order and Order Response reports

Exhibit B 20120316448

<u>Sample Size</u>	<u>Sample Description</u>
76	Proprietary Sales reviewed for compliance with SEC Rule 200(g) long/short sale recording requirements
21	Customer Sales reviewed for compliance with SEC Rule 200(g) long/short sale recording requirements
2	Short Sales reviewed for compliance with SEC Rule 203(b) security location requirements
445	Sell Executions Reviewed for SEC Rules 17a-3/4
0	Sales reviewed for compliance with SEC Rule 204 fail-to-deliver requirements
0	Sales reviewed for compliance with SEC Rule 201
639	Sell trades reported to a TRF or OTCRF for compliance with sale indicator requirements, FINRA Rules 6182 or 6624
12	Sell orders entered into the Nasdaq Exchange execution system for compliance with Nasdaq Rule 4755(a)(1)(A) long/short reporting requirements
20	Buy and Sell orders entered into the Nasdaq Exchange execution system for compliance with Nasdaq Rule 4611 capacity reporting requirements
20	Sell orders entered into the Nasdaq OMX BX execution system for compliance with Nasdaq OMX BX Rule 4755 long/short reporting requirements
N/A	Sell orders entered into the Nasdaq OMX PHLX execution system for compliance with Nasdaq OMX PHLX Rule 3305 long/short reporting requirements
40	Buy and Sell orders entered into the DirectEdge Exchange execution system for compliance with EDGA/EDGX Rule 11.22 capacity rule reporting requirements
40	Sell orders entered into the DirectEdge Exchange execution system for compliance with EDGA/EDGX Rule 11.15 long/short reporting requirements
40	Sell orders entered into the NYSE-Arca execution system for compliance with NYSE-Arca Equity Rule 7.16 long/short reporting requirements
0	Limit orders for NMS securities in which the member acts as an exchange market maker for compliance with the display requirements of SEC Rules 602 and 604, and Nasdaq Rule 3390

32	Orders for compliance with best execution requirements of NASD Rule 2320
	2 Held orders from the Held Order Protection Review
	5 Not Held orders from the Not Held Order Review
	0 Order executed with a .PRP (Prior Reference Price) trade modifier
	25 Customer orders in OTC equity securities for compliance with NASD Rule 3110(b) requirements to ascertain and document best interdealer market related to execution of orders
2	Orders for compliance with order protection requirements of NASD Rules 2110, IM-2110-2, 2111, and Nasdaq Rules 2110, IM-2110-2, and 2111
10	Open Limit orders to buy and/or open Stop orders to sell securities that traded ex-dividend for compliance with NASD Rule 3220 and Nasdaq Rule 4761
0	Order memoranda and Net Trading agreements for compliance with NASD Rule 2441 requirements
75	Orders in securities required to be submitted to OATS for compliance with FINRA Rules 7440 and 7450, and Nasdaq Rules 6954 and 6955 requirements
24	Customer confirmations prepared and maintained in connection with select samples for compliance with SEC Rule 10b-10
25	Orders for NMS securities in which the Firm acts as a market center for compliance with SEC Rule 605 order classification requirements
2	Data sets published for April 2012 monthly order execution report 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)
1	Quarterly Routing Report for compliance with SEC Rule 606 requirements
21	CRD registration records for persons conducting and/or supervising Firm's trading and/or market making activities for compliance with NASD Rule Series 1020, 1030, 1040 and Nasdaq Rule Series 1020, 1030, 1040
25	Customer orders in OTC equity securities for compliance with NASD Rule 3110(b) requirements to ascertain and document best interdealer market related to execution of orders
10	Disclosures to customers relating to trading in the Extended Hours session for compliance with FINRA Rule 2265 and Nasdaq Rule 4631

356	Records prepared and maintained in connection with the above samples for compliance with SEC Rules 17a-3 and 17a-4, and NASD Rule 3110
725	Trades reported to a TRF or OTCRF for compliance with FINRA Rules 6380A and 7230A or 6622 and 7330
All Provided	Member's "Regular & Rigorous" review procedures regarding order execution quality for compliance with NASD Rules 2320 and 3010
All Provided	Member's supervisory and operational policies and procedures and documentation evidencing execution of the policies and procedures for compliance with SEC Regulation NMS Rule 611
All Provided	Member's supervisory system, written supervisory procedures ("WSPs") and documentation evidencing execution of the WSPs for compliance with NASD Rule 3010, Nasdaq/BX Rule 3010, NYSE Arca Rule 6.18, and EDGA/EDGX Rule 5.1/5.5 requirements
N/A	Trading Halts declared during the on-site portion of the examination for which FINRA Staff observed the operation of the ATS.
N/A	Trades reported to the ADF/TRACS for compliance with FINRA Rule 6282
N/A	ADF orders and quotes accessed by other market participants for compliance with FINRA Rule 6250 requirements to submit Order and Order Response reports