

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 20110305980-01**

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" or "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

The firm has been a FINRA member since July 30, 1955 and its registration remains in effect.

SUMMARY

The Department of Market Regulation staff ("staff") conducted several separate and distinct reviews regarding the firm's compliance in the following areas: (1) OATS reporting requirements and related supervision¹ during the period June 1, 2014 through December 31, 2014; (2) Close-Out Obligations pursuant to Rule 204 of Regulation SHO and related supervision during various review periods² between April 1, 2010 and June 28, 2013; and (3) Short interest position reporting requirements and related supervision³

¹ Matter No. 20150439800.

² Matter Nos. 20110305980 (*April 1, 2010 through September 30, 2012*); 20120346500 (*July 1, 2012 through September 30, 2012*); and 20130385520 (*April 1, 2013 through June 28, 2013*).

³ Matter No. 20130378674.

for settlement dates from July 1, 2010 through October 31, 2013. Based on the above reviews, the firm violated federal and FINRA rules as set forth below.

RELEVANT DISCIPLINARY HISTORY

The firm has the following relevant disciplinary history related to OATS and Short Interest reporting:

On December 9, 2014, FINRA accepted an AWC in which the firm was censured and fined \$7,500 for Order Audit Trail System ("OATS") reporting violations and \$12,500 for written supervisory procedures specific to its OATS activities during the period June 6, 2012 through June 7, 2012.

On June 25, 2013, FINRA accepted the firm's Offer of Settlement in which the firm was censured and fined \$750,000 (\$500,000 for OATS reporting violations and \$250,000 for supervisory violations) during the period January 1, 2005 through December 31, 2012.

On September 27, 2013, FINRA accepted an AWC in which WEDB was censured and fined a total of \$87,500, including a \$42,500 fine for short interest reporting violations and a \$12,500 fine for supervisory deficiencies during the period June 30, 2008 through June 30, 2010.

FACTS AND VIOLATIVE CONDUCT

OATS Compliance and Supervision

20150439800

1. The firm failed to transmit 548,669,414 Reportable Order Events ("ROEs") to OATS during the review period⁴. The firm failed to detect a technology issue that affected its reporting system, which caused the ROEs generated by one of its sponsored access clients, not to be transmitted to OATS. The ROEs represented 7.68 percent of all ROEs that the firm was required to transmit to OATS during the review period. The ROEs also represented 99 percent of the ROEs that the firm was required to submit to OATS on behalf of a sponsored access client using the firm's MPID ("WLSC") during the review period. The conduct in this paragraph constitutes separate and distinct violations of FINRA Rule 7450. In determining sanctions, FINRA considered that as of July 6, 2015, the Respondent had terminated the sponsored access business that resulted in the OATS violations cited herein.
2. During the review period⁵, the firm failed to enforce its written supervisory procedures which specified that the firm would review its OATS Web interface reports and data to ensure that all ROEs were being submitted to OATS. Based on

⁴ June 1, 2014 through December 31, 2014

⁵ Fn. 4.

the volume of non-reporting and the extended period over which it occurred, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with the securities laws and regulations, and the Rules of FINRA regarding OATS. The conduct described in this paragraph constitutes a violation of NASD Rule 3010⁶ and FINRA Rules 2010 and 3110.⁷

Close-out Obligations and Supervision

20110305980, 20120346500, and 20130385520⁸

1. During the review periods⁹, in 171 instances, the firm accepted a short sale order from another person, or effected a short sale for its own account, without first borrowing the security, or entering into a bona-fide arrangement to borrow the security, and had a fail-to-deliver position at a registered clearing agency in such security that was not closed out in accordance with the requirements of paragraph (a) of SEC Rule 204. The conduct described in this paragraph constitutes separate and distinct violations of SEC Rule 204(a) of Regulation SHO.
2. During the review periods¹⁰, the firm's supervisory system did not provide for supervision reasonably designed to achieve compliance with respect to the applicable securities laws and regulations, concerning Rule 204 of Regulation SHO. 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 a violation of FINRA Rule 2010 and NASD Rule 3010.

⁶ NASD Rule 3010 pertains to conduct that occurred prior to December 1, 2014.

⁷ FINRA Rule 3110 pertains to conduct that occurred after November 30, 2014.

⁸ In a related NYSE Arca Equities Inc. matter (20120333282), Respondent's OATS supervisory processes were found not to be reasonably designed to comply with Regulation SHO, in violation of NYSE Arca Rule 6.18. Specifically, Respondent did not have a system in place to properly supervise the allocation of fails to its market making clients to ensure compliance with the requirements of Rule 204(a), during the period October 1, 2011 through June 30, 2012.

⁹ See pg. 1, Fn. 2.

¹⁰ Id.

3. During the review period¹¹, in four instances, the firm executed a short sale order and failed to properly mark the order as short. The conduct described in this paragraph constitutes separate and distinct violations of Rule 200(g) of Regulation SHO.

Short Interest and Supervision

20130378674

1. For 61 settlement dates during the review period¹², the firm reported 171 short interest positions totaling 4,706,076 shares when it should have reported 90 short interest positions totaling 747,865 shares. The violations resulted from a coding error that caused the firm to erroneously include short interest positions from certain accounts in the short interest reports the firm submitted to FINRA. The conduct described in this paragraph constitutes separate and distinct violations of FINRA Rule 4560.
2. During the review period¹³, 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 position reporting. Specifically, the firm's supervisory system did not include written supervisory procedures providing for a statement of the supervisory step(s) to be taken by the designated supervisor responsible for ensuring compliance with short interest position reporting requirements. The conduct described in this paragraph constitutes a violation of FINRA Rule 2010 and NASD Rule 3010.

OTHER FACTORS

In unrelated FINRA matters, Respondent retained an independent consultant and revised its written supervisory procedures related to OATS as of September 2016 and had revised its Regulation SHO written supervisory procedures as of March 10, 2015. Thus, the sanctions in this matter do not include an undertaking because of this conduct.

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

1. A censure; and
2. A fine of \$470,000, of which \$70,000 is payable to NYSE Arca Equities Inc.
3. The fine is to be paid in four annual installments, one of which is due immediately upon notice of acceptance of this AWC, of which \$70,000 will be paid to NYSE Arca

¹¹ April 1, 2013 through June 28, 2013.

¹² July 1, 2010 through October 31, 2013.

¹³ Id.

Equities Inc. in a related matter (20120333282). After the initial payment, the balance of \$352,500 will be subject to interest and paid in accordance with the Election of Payment form (if approved by FINRA staff and the Office of Disciplinary Affairs).

4. Acceptance of this AWC is conditioned upon acceptance of an Offer of Settlement agreement and consent between the Respondent and NYSE Arca Equities Inc. in matter no. 20120333282.

Respondent has submitted an Election of Payment form showing that the method by which it proposes to pay the fine imposed is installment payments.

Respondent agrees to pay the monetary sanction(s) upon notice that this AWC has been accepted and that such payment(s) are due and payable in accordance with the Election of Payment form and the payment terms outlined above.

Respondent 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

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 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, 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 Respondent; 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 accordance with FINRA Rule 8313;
 - 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 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. Respondent 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.

Aug 11, 2017
Date

Respondent
Wedbush Securities Inc.

By: [Signature]

Name: Eric Segall, Esq.

Title: S.V.P., Co-CCO

Accepted by FINRA:

9/27/17
Date

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

[Signature]
Robert A. Marchman
Executive Vice President
FINRA Department of Market Regulation