

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. 2017056511101**

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. (Western or 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 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 is a registered broker-dealer and has been a FINRA member since November 1995. The Firm is a full-service retail brokerage firm with its principal place of business in Pasadena, California. Western offers retail customers a variety of products including stocks, bonds, mutual funds, and retirement accounts. Western has approximately 175 branch locations and approximately 475 registered representatives.

RELEVANT DISCIPLINARY HISTORY

Respondent does not have any relevant disciplinary history with the Securities and Exchange Commission, any state securities regulators, FINRA, or any other self-regulatory organization.

OVERVIEW

From October 2011 through June 2018 (the Relevant Period), Western failed to timely amend the Uniform Application for Securities Industry Registration or Transfer (Form U4) for 52 registered representatives to disclose 163 liens, judgments and/or bankruptcies (financial events) that totaled more than \$5.6 million, in violation of Article V, Section

2(c) of FINRA's By-Laws and FINRA Rule 2010. Additionally, Western failed to reasonably respond to red flags it received through its own reviews and FINRA inquiries that its representatives were not timely disclosing reportable financial events. The Firm also failed to establish, maintain, and enforce a supervisory system, including written supervisory procedures (WSPs), reasonably designed to ensure the timely reporting of disclosable events, in violation of NASD Rule 3010 (for conduct prior to December 1, 2014) and FINRA Rules 3110 and 2010 (for conduct on or after December 1, 2014).¹

FACTS AND VIOLATIVE CONDUCT

A. Failure to Timely File Form U4 Amendments

Article V, Section 2(c) of FINRA's By-Laws requires registered representative's Forms U4 to "be kept current at all times by supplementary amendments." A firm must file with FINRA each amendment to a Form U4 "not later than 30 days after learning of the facts or circumstances giving rise to the amendment." A violation of Article V, Section 2(c) of FINRA's By-Laws is also a violation of FINRA Rule 2010, which requires members in the conduct of their business to observe high standards of commercial honor and just and equitable principles of trade.

At all times during the Relevant Period, Question 14M on the Form U4 required the disclosure of unsatisfied liens and judgments; and, Question 14K required disclosure of bankruptcies in the preceding 10 years.

During the Relevant Period, Western failed to timely disclose 163 liens, judgments and bankruptcies on 52 of its registered representatives' Forms U4. The untimely-disclosed liens and judgments totaled more than \$5.6 million. Western was informed of some of these financial events through its own reviews of background check reports, wage levies and annual compliance questionnaires, and, beginning in May 2015, from communications from FINRA's Registration and Disclosure Department (RAD), yet the Firm was between four months to more than six years late in disclosing them.

By virtue of the foregoing, Respondent violated Article V, Section 2(c) of FINRA's By-Laws and FINRA Rule 2010.

B. Failure to Supervise

FINRA Rule 3110(a) requires that members establish and maintain a system to supervise the activities of each associated person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA Rules. The duty to supervise includes the responsibility to investigate red flags that suggest that misconduct may be occurring and to act upon the results of such investigation. A violation of NASD Rule 3010 and FINRA Rule 3110 also constitutes a violation of FINRA Rule 2010.

¹ FINRA Rule 3110 replaced NASD Rule 3010 on December 1, 2014.

During the Relevant Period, Western failed to reasonably respond to red flags it received from its own reviews that its representatives were not timely disclosing 163 financial events relating to 52 of its registered representatives totaling more than \$5.6 million. The red flags included background check reports concerning six registered representatives related to 22 reportable financial events and wage levies from third parties indicating an underlying judgment for two registered representatives. Other red flags included six annual compliance questionnaires completed by four of its registered representatives containing affirmative responses to questions pertaining to liens, judgments and/or bankruptcies.

In April 2014, FINRA announced that it would conduct a review of public records available for the entire population of active registered representatives for financial or criminal disclosures that may not have been reported in CRD. Beginning in May 2015 and from then through December 2017, in connection with this initiative, RAD sent the Firm approximately 100 disclosure letters. The letters detailed approximately 150 potentially undisclosed financial events totaling more than \$5 million relating to more than 50 Western registered representatives (more than 10% of the Firm's registered representatives). These letters identified specific Western registered representatives and described the financial events. The letters notified Western that information in public records indicated that a judgment, lien or bankruptcy may be reportable and directed Western to amend the Form U4 to reflect the financial events or explain to RAD why the event did not need to be reported. Moreover, also during the period June 2015 through December 2017, Western received more than 800 emails from RAD entitled, "Disclosure Review Letter for individual outstanding more than 30 days." These emails told Western that "[a] disclosure letter was generated over 30 days ago . . . [was] still outstanding . . . pursuant to . . . FINRA By-Laws, [] Form U4 . . . amendments, as applicable, [were required to] be filed with FINRA no later than 30 days after [the Firm learned] of the facts or circumstances giving rise to the amendments." The emails also listed the names and Central Registration Depository (CRD) numbers of individual Western registered representatives that were the subject of the disclosure letter as well as the date of the disclosure letter for each representative.

Despite receiving these letters and emails, the Firm failed to take reasonable steps to ensure that its representatives' Form U4s were being amended as needed. Then, beginning in August 2017, FINRA's Enforcement Department sent information and documentation request letters to more than 20 Western registered representatives who had continued undisclosed events, copying Western, and also separately sent request letters to Western inquiring about the untimely disclosures. Even then, the majority of the financial events detailed in those Enforcement letters to the registered representatives were not disclosed until three or more months after receiving those letters.

The Firm also failed to establish, maintain, and enforce a supervisory system, including WSPs, reasonably designed to achieve compliance with its obligation to timely disclose reportable financial events on Form U4. Despite generally requiring the timely submission of regulatory filings, the Firm did not establish a reasonable process to ensure that indicia of potentially undisclosed financial events were timely investigated or that

Form U4 updates were timely filed. For example, the Firm's process for tracking and updating Form U4s was manual and ad hoc, and Western did not utilize any organizational or tracking system to ensure timely disclosures.

By virtue of the foregoing, Western violated NASD Rule 3010 (for conduct prior to December 1, 2014) and FINRA Rules 3110(a) and 2010 (for conduct on or after December 1, 2014).

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

- A censure; and,
- A fine in the amount \$325,000.

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

Respondent specifically and voluntarily waives any right to claim an inability to pay, now or at any time hereafter, the monetary sanction imposed in this matter.

Respondent has undertaken to do the following:

- a. Retain at its own expense one or more qualified independent consultants not unacceptable to FINRA, within 90 days of the date of the Notice of Acceptance of this AWC, to conduct a comprehensive review of the adequacy of the Firm's compliance with the issues identified in this AWC, including but not limited to:
 - (i) Ensuring that Form U4 amendments for financial events are timely filed;
 - (ii) Ensuring that written supervisory procedures related to Form U4 financial event updates are reasonably designed to ensure compliance with Article V, Section 2(c) of FINRA's By-Laws; and,
 - (iii) Ensuring that its supervisory system is reasonably designed to ensure compliance with Article V, Section 2(c) of FINRA's By-Laws, including its process for investigating and completing timely reviews of indications of any undisclosed financial events.
- b. The Independent Consultant, any Firm with which the Independent Consultant is affiliated or of which he/she is a member, and any person engaged to assist the Independent Consultant in performance of his/her duties, shall not have provided consulting, legal, auditing or other

professional services to, or had any affiliation with, Respondent during the two years prior to the date of the Notice of Acceptance of this AWC.

- c. Cooperate with the Independent Consultant in all respects, including providing the Independent Consultant with access to Respondent's files, books, records, and personnel, as reasonably requested for the above-mentioned reviews. Respondent shall require the Independent Consultant to report to FINRA on its activities as FINRA may request and shall place no restrictions on the Independent Consultant's communications with FINRA. Further, Respondent, upon request, shall make available to FINRA any and all communications between the Independent Consultant and the Firm and documents reviewed by the Independent Consultant in connection with this review.
- d. Once retained, Respondent shall not terminate the relationship with the Independent Consultant without FINRA's written approval; Respondent shall not be in and shall not have an attorney-client relationship with the Independent Consultant and shall not seek to invoke the attorney-client privilege or other doctrine or privilege to prevent the Independent Consultant from transmitting any information, reports or documents to FINRA;
- e. At the conclusion of the Independent Consultant's review, which shall be no more than 120 days after the date of the Notice of Acceptance of this AWC, Respondent shall require the Independent Consultant to submit a written report ("the Initial Report") to it and FINRA. The Initial Report shall, at a minimum: (i) evaluate and address the adequacy of Respondent's compliance with Article V, Section 2(c) of FINRA's By-Laws ensuring financial event updates to Form U4 are timely made and the Firm's written supervisory procedures regarding Form U4 updates is reasonably designed to achieve compliance with FINRA Rules; (ii) provide a description of the review performed and the conclusions reached; and (iii) as may be needed, make recommendations regarding how the Respondent should modify or supplement its processes, controls, policies, systems, procedures and training to manage its regulatory and other risks in relation to timely updates of financial events on Form U4; and,
 - (i) Within 60 days after delivery of the Initial Report, Respondent shall adopt and implement the recommendations of the Independent Consultant or, if it considers a recommendation to be, in whole or in part, unduly burdensome or impractical, propose an alternative procedure to the Independent Consultant designed to achieve the same objective. The Respondent shall submit such proposed alternatives in writing simultaneously to the Independent Consultant and FINRA ("Firm's Proposed Alternative Procedures").

- (ii) Within 30 days of receipt of any the Firm's Proposed Alternative Procedures, Respondent shall require the Independent Consultant to:
 - (i) reasonably evaluate the alternative procedures and determine whether it will achieve the same objective as the Independent Consultant's original recommendation; and
 - (ii) provide the Firm and FINRA with a written decision reflecting its determination ("Written Report Regarding Alternative Procedures"). In the event the Independent Consultant and Respondent are unable to agree, the Firm must abide by the Independent Consultant's ultimate determination with respect to any proposed alternative procedure and must adopt and implement all recommendations deemed appropriate by the Independent Consultant.
 - (iii) Within 30 days after the issuance of the Independent Consultant's Initial Written Report or Written Report Regarding Alternative Procedures (if any), Respondent shall provide the Independent Consultant and FINRA staff with a written Implementation Report, certified by an officer of the Firm, attesting to, containing documentation of, and setting forth the details of the Firm's implementation of the Independent Consultant's recommendations. The certification shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. FINRA may make reasonable requests for further evidence of compliance, and Respondent agrees to provide such evidence.
- f. Require the Independent Consultant to enter into a written agreement that provides that for the duration of this engagement and for a period of two years from the completion of this engagement, the Independent Consultant shall not enter into any other employment, consultant, attorney-client, auditing or other professional relationship with Respondent, or any of its present or former affiliates, directors, officers, employees, or agents acting in their capacity as such. Any Firm with which the Independent Consultant is affiliated or of which it is a member, and any person engaged to assist the Independent Consultant in the performance of its duties pursuant to this AWC, shall not, without prior written consent of FINRA, enter into any employment, consultant, attorney-client, auditing or other professional relationship with Respondent or any of Respondent's present or former affiliates, directors, officers, employees, or agents acting in their capacity as such for the period of the engagement and for a period of two years after the engagement.
- g. Upon written request showing good cause, FINRA may extend any of the procedural dates set forth above.

II.

WAIVER OF PROCEDURAL RIGHTS

Respondent specifically and voluntarily waive(s) 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 Respondent; and
- C. If accepted:

1. this AWC will become part of Respondent's permanent disciplinary record and may be considered in any future action brought by FINRA or any other regulator against Respondent;
 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 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 Respondent 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 it to submit it.

Western International Securities, Inc.
Respondent

April 20, 2020
Date

By: _____

Print Name: Brad Kaiser

Title: Chief Compliance Officer

Reviewed by:



Michael J. Watling, Esq.
Counsel for Respondent King
& Spalding
1185 Avenue of the Americas
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Accepted by FINRA:

May 4, 2020
Date

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



Michael J. Rogal
Senior Counsel
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