

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND
CONSENT NO. 2018060330902**

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, Respondent Western International Securities, Inc. 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 in this AWC.

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 became a FINRA member in November 1995. Western is headquartered in Pasadena, California. As of June 2020, the firm has 171 branch offices and 463 registered individuals.

Respondent does not have any relevant disciplinary history.

OVERVIEW

From October 1, 2018 through December 31, 2018, Western, on behalf of a customer, effected opening transactions in a stock option contract that resulted in the customer holding a position in the security that exceeded the applicable position limit of the options position for four consecutive business days. Further, the firm failed to establish and maintain a supervisory system, including written supervisory procedures (WSPs), that was reasonably designed to achieve compliance with option position limits requirements. As a result, Western violated FINRA Rules 2360, 3110(a) and (b), and 2010.

FACTS AND VIOLATIVE CONDUCT

This matter originated from surveillance FINRA's Department of Market Regulation conducts to monitor compliance with requirements involving options position limits.

Position Limit Violations

1. FINRA Rule 2360(b)(3) states, in relevant part, that "[e]xcept in highly unusual circumstances, and with the prior written approval of FINRA pursuant to the Rule 9600 Series for good cause shown in each instance, no member shall effect . . . for the account of any customer . . . an opening transaction on any exchange in a stock option contract of any class of stock options if the member has reason to believe that as a result of such transaction the . . . customer . . . would, acting alone or in concert with others, directly or indirectly, hold or control or be obligated in respect of an aggregate standardized equity options position in excess of the highest position limit established by an exchange on which the option trades, or such other number of stock option contracts as may be fixed from time to time by FINRA as the position limit for one or more classes or series of options provided that reasonable notice shall be given of each new position limit fixed by FINRA."
2. Option position limits are in place because an excessively large options position limit may disrupt the marketplace by allowing the holder to influence the price of the option or underlying security. Position limits also protect firms and customers from overexposure to price fluctuations in one product.
3. On October 26, 2018, Western, on behalf of a customer, effected opening transactions in a stock option contract that resulted in the customer holding a position in the security that exceeded the applicable position limit for the particular options position. The options position limit overage existed for four business days until Western was notified by its clearing firm of the breach.
4. Therefore, Western violated FINRA Rules 2360(b)(3) and 2010.¹

Supervision Violations

5. FINRA Rule 3110(a) provides, "[e]ach member shall 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." Further, subsection (b) provides, "[e]ach member shall establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons

¹ FINRA Rule 2010 provides, "[a] member, in the conduct of its business, shall observe high standards of commercial honor and just and equitable principles of trade." A violation of a FINRA rule constitutes a violation of Rule 2010.

that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA rules.”

6. From October 1, 2018 through December 31, 2018, Western’s supervisory system, including its WSPs, was not reasonably designed to achieve compliance with FINRA Rule 2360. Specifically, the firm had no reports that identified position limit overages. Instead, Western relied on its clearing firm to inform it of position limit violations. Moreover, the firm’s WSPs provided that the “Designated Options Principal is responsible for identifying positions that exceeded allowable limits under SRO rules,” but the WSPs failed to describe a supervisory review to determine if the firm or its customers exceeded an options position limit. Subsequent to the review period, Western updated its WSPs and addressed the deficiencies noted herein.

7. Therefore, Western violated FINRA Rules 3110(a) and (b), and 2010.

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

- a censure and
- a \$20,000 fine, comprised of \$10,000 for the position limit violations (FINRA Rules 2360(b)(3) and 2010), and \$10,000 for the related supervision violations (FINRA Rule 3110 and 2010).

Respondent agrees to pay the monetary sanction upon notice that this AWC has been accepted and that such payment is 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 after the execution of this AWC, the monetary sanction imposed in this matter.

The sanctions imposed in this AWC shall be effective on a date set by FINRA.

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 its acceptance or rejection.

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 its subject matter 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 testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party.

The undersigned, on behalf of Respondent, certifies that a person duly authorized to act on Respondent's 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 Respondent 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 in this AWC and the prospect of avoiding the issuance of a complaint, has been made to induce Respondent to submit this AWC.

12/18/2020

Date



Western International Securities, Inc.
Respondent

Print Name: Brad Kaiser

Title: Chief Compliance Officer

Accepted by FINRA:

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



January 5, 2021

Date

Luis A. Prieto
Counsel
FINRA
Department of Enforcement
15200 Omega Drive, Suite 300
Rockville, MD 20850