

**FINANCIAL INDUSTRY REGULATORY AUTHORITY
LETTER OF ACCEPTANCE, WAIVER, AND CONSENT
NO. 2020067094001**

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 accepts and consents to the following findings by FINRA without admitting or denying them:

BACKGROUND

Western has been a FINRA member since 1995. It is a full-service broker-dealer headquartered in Pasadena, California. It has approximately 460 registered representatives in approximately 140 branch offices.

Pursuant to an AWC issued in April 2020, Western consented to FINRA's findings that from October 2011 through June 2018, the firm failed to (i) 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 totaling more than \$5.6 million and (ii) establish, maintain, and enforce a supervisory system reasonably designed to ensure the timely reporting of disclosable events. It was censured, fined \$325,000, and ordered to obtain an independent consultant.

Pursuant to an AWC issued in February 2018, Western consented to FINRA's findings that, among other things, from 2011 to 2015, the firm failed to establish, maintain, and enforce a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with its suitability obligations in connection with its representatives' sales of leveraged and inverse exchange-traded funds.¹ It was censured,

¹ For more information about the firm, including prior regulatory events, visit BrokerCheck® at www.finra.org/brokercheck.

fined \$125,000, and ordered to pay restitution to customers in the amount of approximately \$520,000.

OVERVIEW

From 2013 to 2017, Western failed to establish, maintain, and enforce a supervisory system, including written supervisory procedures, reasonably designed to achieve compliance with its suitability obligations in connection with recommendations of non-traded real estate investment trusts (non-traded REITs), in violation of NASD Rule 3010 and FINRA Rules 3110 and 2010. In addition, between 2015 and 2022, Western failed to report or timely report approximately 45 written customer complaints, customer arbitrations, and settlements, in violation of Article V, Sections 2(c) and 3(b) of FINRA's By-laws and FINRA Rules 1122 and 2010.

FACTS AND VIOLATIVE CONDUCT

This matter originated from an investigation of a former Western registered representative, MP.

1. Western failed to reasonably supervise its non-traded REIT business.

A. Non-traded REITs are illiquid products that can carry higher investment risks.

A REIT is a corporation, trust, or association that owns income-producing real estate. REITs pool the capital of numerous investors to purchase a portfolio of properties, which the typical investor might not otherwise be able to purchase individually. A non-traded REIT does not trade on a national securities exchange and the secondary market for non-traded REITs may be limited.

NASD Notice to Members 03-71 reminded members that, because of their particular risks, non-traded REITs “may be suitable for recommendation to only a very narrow band of investors capable of evaluating and being financially able to bear those risks.” The notice also stated that, “due to the unique nature of these products, many investors, especially retail investors, may not understand the features of the product, and may not fully appreciate the associated risks of investing in them.”

In an October 2011 Investor Alert, FINRA highlighted several features of non-traded REITs, including that they “are generally illiquid, often for periods of eight years or more,” and “[e]arly redemption of shares is often very limited.”²

B. Western's supervision was not reasonable.

FINRA Rule 3110(a), like its predecessor NASD Rule 3010(a), requires that each member establish and maintain a system to supervise the activities of each associated

² FINRA Investor Alert, *Public Non-Traded REITs: Perform a Careful Review Before Investing* (Oct. 4, 2011).

person that is reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA and NASD Rules.³ FINRA 3110(b), like its predecessor NASD Rule 3010(b), requires each member to establish, maintain, and enforce written procedures to supervise the types of business in which it engages and the activities of its associated persons that are reasonably designed to achieve compliance with applicable securities laws and regulations, and with applicable FINRA and NASD Rules.

Western's supervisory obligations included its obligation to reasonably supervise the activities of its associated persons in order to achieve compliance with the suitability rule, FINRA Rule 2111. Under the suitability rule, members and associated persons must have a reasonable basis to believe that a recommended transaction involving a security is suitable for the customer, based on the customer's investment profile. A customer's investment profile includes, but is not limited to, the customer's age, financial situation and needs, investment objectives, investment experience, investment time horizon, liquidity needs, and risk tolerance.

A firm's duty to supervise its registered representatives also includes the responsibility to reasonably investigate "red flags" of potential misconduct and to act upon the results of such investigation. A violation of FINRA Rule 3110 or NASD Rule 3010 also is a violation of FINRA Rule 2010, which requires FINRA members, in the conduct of their business, to "observe high standards of commercial honor and just and equitable principles of trade."

From April 2013 to March 2017, Western's written supervisory procedures required supervisors to review non-traded REIT investments for suitability, including whether the transactions were consistent with customers' investment objectives and other profile factors. Western's procedures also required customers to complete a non-traded REIT disclosure form but did not specify what documents to review or steps to take in conducting a suitability analysis for non-traded REITs. In practice, some supervisors reviewed only the non-traded REIT disclosure form to assess suitability. Those forms lacked important customer profile information, including the customer's age, investment objectives, investment experience, investment time horizon, liquidity needs, risk tolerance, and financial situation, including income, liabilities, and net worth. Although that information was included on Western's new account form, the WSPs did not expressly require supervisors to review new account forms before approving non-traded REIT transactions, and some supervisors did not do so.

Western's non-traded REIT disclosure form also contained the phrase "estimated liquidate [sic] net worth," which was neither defined nor consistent with customer profile terms that Western included on customers' new account forms. Therefore, Western's supervisors had inconsistent understandings regarding the term's meaning. Given the lack of guidance in the firm's procedures, some supervisors failed to make their own independent determination regarding whether a transaction was suitable for a particular

³ FINRA Rule 3110 superseded NASD Rule 3010 effective December 1, 2014.

customer, relying instead on representations made by the customer and broker on the disclosure form.

From April 2013 to March 2017, a former representative, MP, recommended 81 purchases of non-traded REITs totaling more than \$7.8 million to 59 firm customers, without a reasonable basis to believe that the recommendations were suitable for any customer; and for six customers, he also had no reasonable basis to believe that the recommendations were suitable for them.⁴ MP offered and sold non-traded REITs within three months of becoming associated with Western to a majority of his customers of various ages and profiles, including retirees, customers with limited financial resources, and customers with limited or no investment experience.

The firm's supervisory system for non-traded REIT sales, as described above, was not reasonably designed to review these sales to achieve compliance with the firm's suitability obligations. In addition, red flags associated with MP and certain of his sales were not properly investigated. For example, in a number of instances MP overstated the customers' net worth information on the disclosure forms to make it appear that his recommendations were consistent with state suitability standards in California that contained a 10% concentration limit. The new account forms of certain customers, some of which had been signed on the same day or weeks apart, contained net worth and liquid net worth values significantly lower than those shown on the disclosure forms, red flags that invited further follow-up.

In addition, other red flags involving MP's sales practices were present: MP had received several customer complaints relating to sales practice issues both prior to and while associated with Western; 19 of the 59 customers who purchased non-traded REITs through MP were 60 years or older and surrendered variable annuities to purchase the non-traded REITs; and MP engaged in a pattern of sales of non-traded REITs to his customers. In some years, MP's commissions from his non-traded REIT sales accounted for over 90 percent of his total commissions. The firm failed to take reasonable steps to investigate MP's sales practices in the face of these red flags. For instance, one of MP's customers was a retired senior who had significant liquidity needs, yet MP recommended that she invest the majority of her liquid assets into a single non-traded REIT.

Therefore, Respondent violated NASD Rule 3010 and FINRA Rules 3110 and 2010.

2. Western failed to report or timely report written customer complaints, arbitrations, and settlements.

Article V, Section 2(c) of FINRA's By-Laws provides that every application for registration filed shall be kept current at all times by supplementary amendments not later than 30 days after learning of the facts or circumstances giving rise to the amendment. Article V, Section 3(b) of FINRA's By-Laws, provides that firms must file an amendment to Forms U5 within 30 days after they learn of facts or circumstances causing any information set forth in a previously filed Form U5 to become

⁴ In February 2021, FINRA filed a complaint against MP and that action remains pending.

inaccurate or incomplete. FINRA Rule 1122 prohibits, in relevant part, members from filing with FINRA information with respect to registration which is incomplete or inaccurate so as to be misleading or fail to correct such filing after notice thereof. A violation of Article V, Sections 2(c) and 3(b) of FINRA's By-Laws or FINRA Rule 1122 also is a violation of FINRA Rule 2010.

Timely and accurate Forms U4 and U5 are critical to FINRA's function in screening and monitoring registered representatives, and also provide information that may appear in BrokerCheck, a free tool that FINRA provides the public so that it can research the background and experience of registered representatives.

At all relevant times, Question 14I on the Form U4 and Question 7E on the Form U5 required disclosure of certain written customer complaints, arbitrations and settlements.⁵

Between 2015 and 2022, Western failed to report or timely report on registered representatives' Forms U4 and/or U5 approximately 45 written customer complaints, arbitrations, and/or settlements. In some instances, the delays were not significant, but in other instances, the reporting failures impeded FINRA's investigation of allegations and prevented disclosure to the investing public. For example, one set of MP's customers, a husband and wife, who purchased a non-traded REIT, complained in writing to the firm in June 2017 about unsuitable investments. The firm failed to ever amend MP's Form U4 to report the complaint (or its related settlement) on MP's Form U4. Thus, FINRA was unaware of the details of the complaint until approximately four years later, when it interviewed the customers at issue and learned of the complaint.

Therefore, Western violated Article V, Sections 2(c) and 3(b) of FINRA's By-laws and FINRA Rules 1122 and 2010.

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

- a censure;
- a \$400,000 fine;
- restitution and partial restitution⁶ of \$471,401.57 plus interest as described below; and
- A certification: within 90 days of the Notice of Acceptance of this AWC, Respondent shall certify to FINRA in a submission signed by an officer and principal of the firm that, as of the date of the certification, Respondent has implemented supervisory systems and procedures reasonably designed to achieve compliance with its suitability obligations in connection with sales of non-traded

⁵ See Form U4 (Questions 14.I, "Customer Complaint/Arbitration/Civil Litigation Disclosure") and Form U5 (Question 7E, "Customer Complaint/Arbitration/Civil Litigation Disclosure") available at <https://www.finra.org/registration-exams-ce/broker-dealers/registration-forms>.

⁶ In those instances in which partial restitution is being paid to customers, it is equal to the commissions that Western received in connection with these customers' investments in non-traded REITs.

REITs, and with its disclosure obligations under Article V, Sections 2(c) and 3(b) of FINRA's By-laws and FINRA Rules 1122 and 2010. The certification shall be addressed to John-Michael Q. Seibler, Counsel, FINRA Department of Enforcement, 15200 Omega Drive Suite 300, Rockville, MD 20850; John-Michael.Seibler@finra.org. Upon written request showing good cause, FINRA staff may extend the procedural date set forth above.

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.

Restitution is ordered to be paid to the customers listed on Attachment A to this AWC (Eligible Customers) in the total amount of \$471,401.57, plus interest at the rate set forth in Section 6621(a)(2) of the Internal Revenue Code, 26 U.S.C. § 6621(a)(2), from January 1, 2017 until the date this AWC is accepted by the National Adjudicatory Council (NAC). A registered principal on behalf of Respondent shall submit satisfactory proof of payment of restitution and interest (separately specifying the date and amount of each paid to each Eligible Customer) or of reasonable and documented efforts undertaken to effect restitution. Such proof shall be submitted by email to EnforcementNotice@FINRA.org from a work-related account of the registered principal of Respondent. The email must identify Respondent and the case number and include a copy of the check, money order, or other method of payment. This proof shall be provided by email to EnforcementNotice@FINRA.org no later than 120 days after the date of the notice of acceptance of the AWC.

The restitution amount plus interest to be paid to each Eligible Customer shall be treated by the Respondent as the Eligible Customer's property for purposes of state escheatment, unclaimed property, abandoned property, and similar laws. If after reasonable and documented efforts undertaken to effect restitution Respondent is unable to pay all Eligible Customers within 120 days after the date of the notice of acceptance of the AWC, Respondent shall submit to FINRA in the manner described above a list of the unpaid Eligible Customers and a description of Respondent's plan, not unacceptable to FINRA to comply with the applicable escheatment, unclaimed property, abandoned property, or similar laws for each such Eligible Customer.

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 imposition of a restitution order or any other monetary sanction in this AWC, and the timing of such ordered payments, does not preclude customers from pursuing their own actions to obtain restitution or other remedies.

Restitution payments to customers shall be preceded or accompanied by a letter, not unacceptable to FINRA, describing the reason for the payment and the fact that the payment is being made pursuant to a settlement with FINRA and as a term of this AWC.

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 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 right to take legal or factual positions in litigation or other legal proceedings in which FINRA is not a party. Nothing in this provision affects Respondent's testimonial obligations in any litigation or other legal proceedings.
- 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.

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.

October 25, 2022

Date

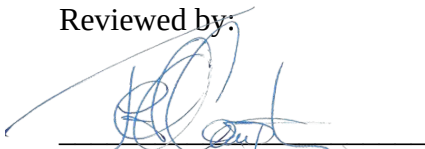


Western International Securities, Inc.
Respondent

Print Name: Brad Kaiser

Title: CCO

Reviewed by:



Jeffrey K. Compton
Counsel for Respondent
Markun Zusman & Compton LLP
17383 Sunset Blvd. Suite A-380
Pacific Palisades, California 90272

Accepted by FINRA:

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

October 31, 2022

Date



John-Michael Q. Seibler
Principal Counsel
FINRA
Department of Enforcement
15200 Omega Drive Suite 300
Rockville, MD 20850

ATTACHMENT A

RESTITUTION SCHEDULE

Customer	Restitution Amount (Exclusive of Interest)
Customer 1	\$3,303.16
	\$1,101.65
Customer 2	\$1,299.69
Customer 3	\$16,105.90
Customers 4 and 5	\$2,100.00
	\$1,050.00
Customer 5	\$2,100.00
Customer 6	\$1,400.00
Customer 7	\$10,254.54
Customer 8	\$2,497.85
	\$4,300.87
Customers 7 and 8	\$4,483.82
Customers 9 and 10	\$3,500.00
	\$1,750.00
Customer 11	\$6,020.00
Customers 12 and 13	\$9,744.45
Customer 14	\$14,608.92
	\$8,758.65
Customer 15	\$22,148.35
Customer 16	\$7,336.98
Customers 16 and 17	\$7,000.00
Customer 18	\$5,046.40
Customers 19 and 20	\$7,140.00
Customer 21	\$7,253.84

Customer	Restitution Amount (Exclusive of Interest)
Customer 22	\$442.92
Customers 23 and 24	\$456.00
Customers 25 and 26	\$3,919.72
	\$20,313.30
Customers 27 and 28	\$5,976.71
	\$3,500.00
Customer 29	\$2,705.50
Customer 30	\$2,340.53
	\$560.00
Customer 31	\$30,719.50
Customer 32	\$5,357.80
	\$3,353.35
Customer 33	\$4,991.00
	\$117.63
Customer 34	\$11,162.35
Customer 35	\$13,672.00
Customer 36	\$25,961.22
Customer 37	\$2,800.00
	\$3,150.00
Customer 38	\$5,313.00
	\$12,352.84
Customer 39	\$1,033.63
Customers 40 and 41	\$5,250.00
	\$2,550.10
	\$224.00
Customer 42	\$4,333.00
Customers 43 and 44	\$4,828.39
Customers 45 and 46	\$55,907.35
Customer 46	\$22,127.50
Customer 47	\$62,877.16
Customer 48	\$2,800.00
TOTAL:	\$471,401.57